Official Statement and Bond Resolution

Redevelopment Agency of the City of Merced
Merced County, California

Bonds--Calif.--Merced
Merced--City planning
" --Econ. conditions

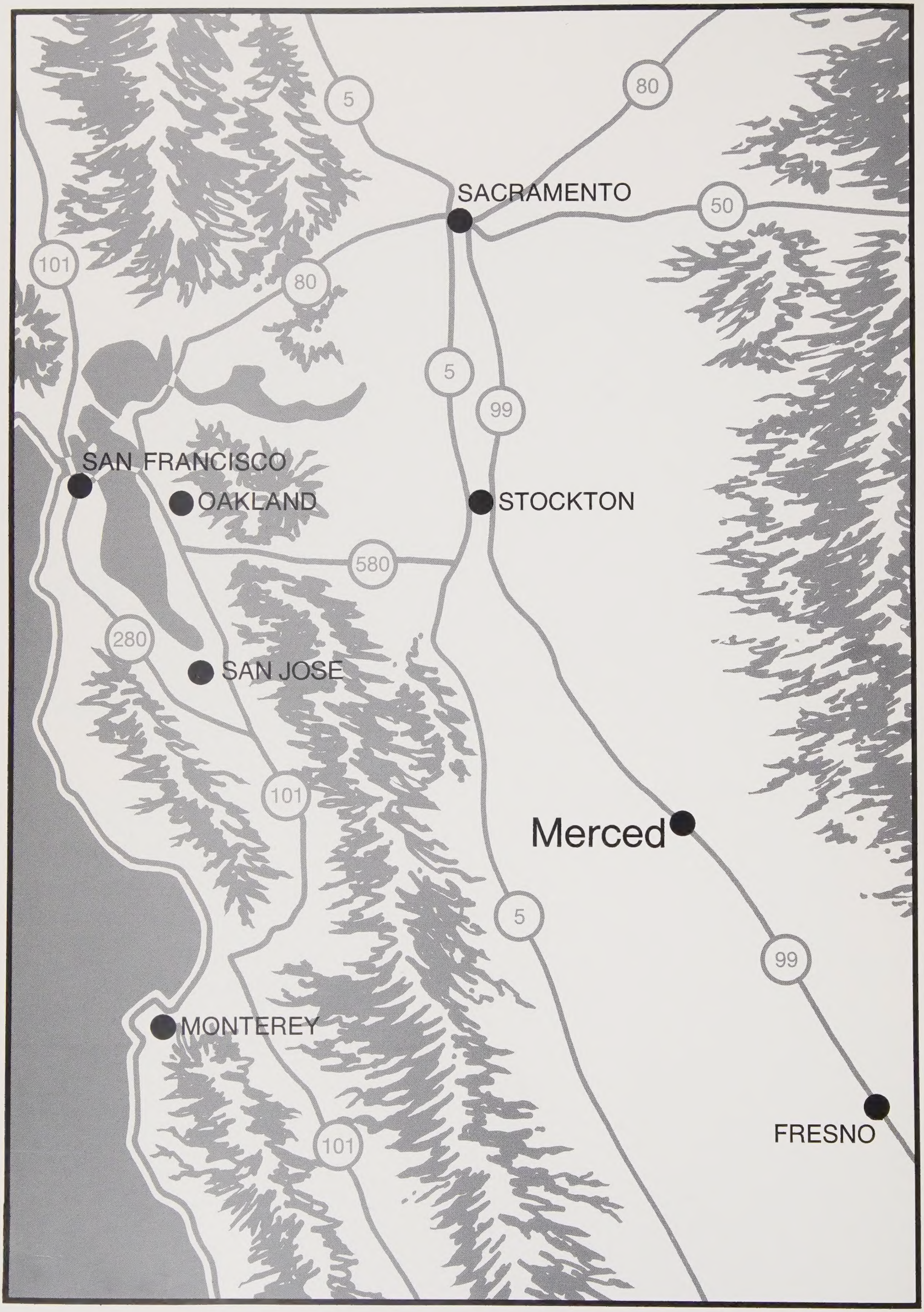
Merced Redevelopment Project Number 2 1978 Tax Allocation Bonds

$8,500,000
Principal Amount

no dup

Artist's rendition of proposed redevelopment of the city's main thoroughfare, 17th Street, courtesy of Rockrise Odermatt Mountjoy Associates, San Francisco

MERCED


5
80
SACRAMENTO
50
101
80
5
99
SAN FRANCISCO
OAKLAND
STOCKTON
580
280
SAN JOSE
101
Merced
5
99
MONTEREY
FRESNO
101

THE REDEVELOPMENT AGENCY OF THE CITY OF MERCED
Merced County, California

CITY COUNCIL AND AGENCY GOVERNING BOARD

William P. Quigley, *Mayor and Agency Chairman*

Carol Gabriault, *Mayor Pro Tem and Agency Vice Chairman*

Carolyn Goings

Robert L. Hart

A. V. Henderson

Samuel C. Pipes

Donald M. Robinson

CITY STAFF

Allan R. Schell, *City Manager and Agency Executive Director*

William J. Adams, *City Attorney and Agency General Counsel*

Gerald R. Baugh, *Finance Officer*

Stevan M. Stroud, *City Engineer*

Philip W. Block, *Planning Director*

William H. Cunningham, *Executive Officer (M.S.O.)*

Robert C. Bundy, *Executive Officer (Asst.)*

SPECIAL SERVICES

Bond Counsel

Orrick, Herrington, Rowley & Sutcliffe, *San Francisco*

Agency Special Counsel

Joseph E. Coomes, Jr., of
McDonough, Holland, Schwartz & Allen,
A Professional Corporation, *Sacramento*

Redevelopment Agency Consultant

Richard H. Flint, Flintloch, Inc., *Merced*

Accountants for Project Area

Martin, Fernandes & Lemaster, *Modesto*
Accountancy Corporation

City Auditor

Wolf and Company, *Fresno*
Certified Public Accountants

Financing Consultants

Loeb Rhoades, Hornblower & Co., *San Francisco*

Fiscal Agent

United California Bank, *San Francisco*

Paying Agents

Manufacturers Hanover Trust Company, *New York*
The Northern Trust Company, *Chicago*
United California Bank, *Los Angeles*

THE DATE OF THIS OFFICIAL STATEMENT IS MAY 1, 1978.

THE REDEVELOPMENT AGENCY OF THE CITY OF MERCED

May 1, 1978

TO WHOM IT MAY CONCERN:

The purpose of this Official Statement is to furnish information regarding $8,500,000 principal amount of tax allocation bonds to be issued by the Redevelopment Agency of the City of Merced to assist in financing the Merced Redevelopment Project Number 2.

The material contained in this Official Statement was prepared by Loeb Rhoades, Hornblower & Co. as Financing Consultants to and under the direction of the agency. All information contained in this Official Statement is gathered from sources believed to be reliable but the accuracy thereof is not guaranteed.

All of the following summaries of the Resolution of Issuance, the Community Redevelopment Law, other applicable legislation, the Redevelopment Plan, and other documents are made subject to the provisions of such documents respectively, and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the agency for further information in connection therewith. The covenants of the agency are fully set forth in the Resolution of Issuance, and this Official Statement does not constitute a contract with purchasers of bonds. Any statements herein involving estimates and projections may or may not be realized. Any statements herein involving matters of opinion or estimates, whether or not so designated, are to be construed as provisional rather than factual.

The legal opinion of the bond counsel firm of Orrick, Herrington, Rowley & Sutcliffe of San Francisco, California, will be furnished to the successful bidder at the time of delivery of the bonds, at the expense of the agency. Bond Counsel's fee for services is contingent upon the sale and successful delivery of bonds.

Loeb Rhoades, Hornblower & Co. has acted as financing consultant to the agency concerning the currently offered bonds and in preparation of the Official Statement. Financing consultant's fee for services is contingent upon the sale and successful delivery of bonds.

Loeb Rhoades, Hornblower & Co. may submit a bid for the bonds and, if it is the successful bidder, may purchase the bonds and resell all or a portion of the bonds to the public.

The execution and delivery of this Official Statement have been authorized by the agency.

s/William P. Quigley
Chairman

No dealer, broker, salesman or other person has been authorized by the Redevelopment Agency of the City of Merced to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the agency.

Photographs on page 26 courtesy *Merced Sun-Star*.

CONTENTS

TABLES

INTRODUCTION

The $8,500,000 principal amount of Merced Redevelopment Project Number 2 1978 Tax Allocation Bonds to be issued by the Redevelopment Agency of the City of Merced (the "agency") are being sold to finance land acquisition and site improvements to facilitate the revitalization of commercial activity in a portion of the downtown area, the construction of various housing units, the development of a civic-community complex, and other activities to complete the redevelopment plan (the "plan") for the Merced Redevelopment Project Number 2 Project Area (the "project area").

The agency was activated by the city council of the City of Merced in 1957. The plan was adopted by the city council in August, 1974 and amended in September, 1977 and February, 1978. The plan is designed to enable the agency to eliminate and prevent the spread of blight in the project area.

The project area consists of 710 acres encompassing a major portion of the downtown commercial core including the 290-acre Southern Pacific Industrial Park. The downtown area requires land assembly and site improvements to induce private commercial and residential development. Redevelopment activities in the industrial park are substantially completed. The industrial park, which opened in April, 1977, is one-third occupied.

The $8,500,000 tax allocation bonds are payable from property taxes collected in the project area upon any increase over the 1973/74 assessed valuation of $13,320,310. The 1977/78 assessed valuation of $21,579,520 represents an increase of $8,259,210 which will produce an estimated tax allocation of $903,516 based on present applicable tax rates. The 1978/79 tax allocation is estimated by the Redevelopment Consultant, Mr. Richard H. Flint, Flintloch, Inc. to be $930,865. Mr. Flint projects the 1979/80 tax allocation to be $958,214 and the 1980/81 tax allocation to be $985,562. The projections are based on anticipated and completed commercial and residential projects with no change in the 1977/78 tax rate. No allowance was made in the projections for increased utilization of the industrial park located in the project area. The park has an additional 195 acres equipped with the necessary utilities and ready for occupancy.

The entire annual tax allocation will be deposited with United California Bank, San Francisco, California, the agency's fiscal agent ("fiscal agent") and used solely to amortize the project area's bonds and to reimburse the city or any other public agency for advances to or expenses incurred on behalf of the project, if certain earnings tests are met. In addition to pledging tax allocation revenue to bond repayment, the agency will deposit into a special trust account called the "Merced Redevelopment Project Number 2 Trust Account" (the "Trust Account") $842,000 of its present cash balance. If tax allocation revenues for the 1979/80 fiscal year are less than $900,000, the Trust Account will be maintained after July 1, 1980 until either (i) tax allocation revenues in a subsequent fiscal year reach $900,000, or (ii) the Trust Account is transferred to the fiscal agent to pay needed debt service on the bonds. If tax allocation revenues for the 1979/80 fiscal year (or any later fiscal year) equal or exceed $900,000, the Trust Account may thereafter be used by the agency for any lawful purposes.

The bond issue includes a bond reserve fund equal to one year's interest payments and capitalized interest to meet the first two years' interest payments. A cash flow analysis of projected tax allocation revenue and available reserves to be used for bond repayment indicates that all of the outstanding 1978 Bonds could be retired on or before May 1, 1990, based upon a number of assumptions which are explained more fully in this Official Statement.

City of Merced and Vicinity

The following statements concerning the City of Merced and vicinity are included only for the purpose of supplying summary information. The bonds are not an obligation of the City of Merced.

The City of Merced is located in the northern portion of the San Joaquin Valley, approximately 135 miles southeast of San Francisco and 275 miles north of Los Angeles. The city, with an estimated population of 31,700, is the largest in Merced County and is the county seat.

Historically the city's economy has been primarily based on agricultural production and directly and indirectly related industries. The major employers continue to be agriculturally related and are complemented by other light industries, manufacturing a diverse range of products including paper goods, electrical supplies, hardware, home furnishings, and textiles.

The assessed valuation in the city, including that within the project area, has increased nearly 80% during the last five years. The assessed value that constitutes the revenue source for the city, exclusive of the redevelopment agency increment, has risen approximately 67% during the last five years.

The city of Merced is traversed by Highway 99, a major north-south freeway. The city is approximately 45 minutes east of Interstate 5, the major north-south arterial for the West Coast. The city operates its own municipal airport which is served by United Airlines offering daily service to San Francisco and Los Angeles. Rail service is provided by the Southern Pacific and Santa Fe Railroads and overnight trucking is available to all major California cities.

TABLE 1
SELECTED ESSENTIAL FACTS

The Bonds	
Principal amount	$8,500,000
Maturity	May 1, 2008
Denominations	$5,000
Bonds callable	May 1, 1988 or after
Maximum coupon rate	8%
Maximum discount	3%
Agency Financial Data	
Frozen base assessed valuation 1973/74	$13,320,310
1977/78 assessed valuation	$21,579,520
1977/78 incremental assessed valuation	$8,529,210
1977/78 tax allocation to agency	$903,516
Projected 1978/79 tax allocation to agency	$930,865
Projected 1979/80 tax allocation to agency	$958,214
City Financial and Economic Data	
Direct bonded indebtedness	None
Overlapping bonded debt	$1,070,980
Ratio overlapping debt to assessed valuation	1.04%
1977 population	31,700
Per capita assessed valuation	$3,244

THE BONDS

Authority for Issuance

The $8,500,000 principal amount of Merced Redevelopment Project Number 2 1978 Tax Allocation Bonds (the "bonds") currently being offered were authorized pursuant to Resolution No. 251 (the "Resolution") of the Redevelopment Agency of the City of Merced, and the redevelopment plan, as amended, titled "Merced Redevelopment Project Number 2 Redevelopment Plan," (the "Plan"). The bonds will be issued in full conformity with the Constitution and laws of the State of California, including the Community Redevelopment Law (the "Law") and acts amending or supplementing the law.

Description of the Bonds

The bonds consist of an aggregate principal amount of $8,500,000. They will be issued either as coupon bonds in the denomination of $5,000 each, or as fully registered bonds in denominations of $5,000 or any multiple thereof. The bonds are term bonds, dated May 1, 1978, and mature on May 1, 2008.

Interest is payable on May 1, 1979 and thereafter semi-annually on each November 1 and May 1. Interest and principal (except for interest on fully registered bonds which is payable by mailed check or draft) are payable at the main office of the Fiscal Agent of the agency, United California Bank, in San Francisco, California or at the offices of the Paying Agents of the agency: Manufacturers Hanover Trust Company, New York, The Northern Trust Company, Chicago, and United California Bank, Los Angeles.

Redemption

The bonds may be called before maturity and redeemed at the option of the agency, in whole or in part, from any source of funds, on May 1, 1988, or on any interest payment date thereafter prior to maturity. If less than all of the bonds outstanding are to be redeemed at any one time, the bonds to be redeemed shall be determined by lot.

Bonds called for redemption are to be redeemed at the following redemption prices (computed upon the principal amount of bonds called for redemption) together with accrued interest to the date of redemption:

103 %	if redeemed on May 1 or November 1, 1988
102½%	if redeemed on May 1 or November 1, 1989
102 %	if redeemed on May 1 or November 1, 1990
101½%	if redeemed on May 1 or November 1, 1991
101 %	if redeemed on May 1 or November 1, 1992
100½%	if redeemed on May 1 or November 1, 1993
100 %	if redeemed thereafter and prior to maturity

Registration

Two forms of bonds have been provided: (1) those which are in negotiable form, payable to bearer with negotiable coupons ("bearer bonds") each in the denominations of $5,000; and (2) non-negotiable fully registered bonds payable to the registered owner ("fully registered bonds"), each in denominations of $5,000 or any multiple thereof. The bearer bonds are not registrable by endorsement, but bearer bonds and fully registered bonds may be exchanged as provided in the Resolution. No such exchange shall be made between the fifteenth day preceding any interest payment date and such interest payment date.

Legal Opinion

The unqualified opinion of Orrick, Herrington, Rowley & Sutcliffe, Bond Counsel, approving the validity of the bonds and stating that interest on the bonds is exempt from income taxes of the United States of America under present federal income tax laws, and that such interest is also exempt from personal income taxes of the State of California under present state income tax laws will be furnished to the purchasers of the bonds.

Tax-Exempt Status

In the opinion of bond counsel, under existing statutes, regulations, and court decisions, the interest on the bonds is exempt from all present Federal income taxes and from State of California personal income taxes; and the bonds are exempt from all California taxes except inheritance, gift, and franchise taxes.

Closing Papers

Each proposal for bids on the bonds will be understood to be conditioned upon the purchaser being furnished, without charge, concurrently with payment for and delivery of the bonds, the following closing papers, each dated the date of such delivery:

1. Legal opinion — The unqualified opinion of Orrick, Herrington, Rowley & Sutcliffe, Bond Counsel, approving the validity of the bonds and stating that interest on the bonds is exempt from income taxes of the United States of America under present federal income tax laws, and that such interest is also exempt from personal income taxes of the State of California under present state income tax laws.

2. At the time of payment for and delivery of the bonds, the agency and the city will furnish the successful bidder a certificate, signed by appropriate officers of the agency and the city acting in their official capacity, to the effect that to the best of their knowledge and belief, and after reasonable investigation, (a) neither the Official Statement or any amendment or supplement thereto contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; (b) since the date of the Official Statement no event has occurred which should have been set forth in an amendment or supplement to the Official Statement which has not been set forth in such an amendment or supplement; nor (c) has there been any material adverse change in the operation or financial affairs of the agency or the city since the date of such Official Statement.
3. A certificate of an officer of the agency that on the basis of the facts, estimates and circumstances in existence on the date of issue, it is not expected that the proceeds of the bonds will be used in a manner that would cause the bonds to be arbitrage bonds.
4. A certificate signed by an officer of the agency that there is no litigation pending affecting the validity of the bonds.
5. The signature certificates of the officers and representatives of the agency, showing that they have signed the bonds, whether by facsimile or manual signature, and that they were respectively duly authorized to execute the same.
6. The receipt of the fiscal agent of the agency showing that the purchase price of the bonds, including interest accrued to the date of delivery thereof, has been received by the agency.

Legality for Investment in California

The California Community Redevelopment Law provides that bonds authorized and issued in the same manner and for the same purposes as the Merced Redevelopment Project Number 2 1978 Tax Allocation Bonds shall be legal investments for all banks, including trust companies, and various other financial institutions, as well as for trust funds and other public bodies. The Community Redevelopment Law also provides that such bonds are authorized security for public deposits.

The Superintendent of Banks of the State of California has previously ruled that bonds of a redevelopment agency are, by said statute, legal investments in California for savings banks. As such, the bonds would also be legal investments for all trust funds, and for the funds of all insurance companies, commercial banks, trust companies, and any public or private funds which may be invested in county, municipal, or school district bonds. The bonds may be deposited as security for the performance of any act whenever the bonds of any county or municipality may be so deposited, and may also be used as security for the deposit of public moneys in banks in the state. A separate ruling from the Superintendent of Banks has not been requested for these bonds.

Trust Account

Resolution No. 251 provides that the agency will establish a special account called the "Merced Redevelopment Project Number 2 Trust Account" (the "Trust Account") into which the agency shall place $842,000 of its available cash balance at the time of the delivery of and payment for the bonds. In addition, the agency will periodically deposit in the Trust Account the interest earned on the Redevelopment Fund. If tax allocation revenues for the 1979/80 fiscal year are more than $900,000, the Trust Account may thereafter be used by the agency for any lawful purposes. If tax allocation revenues for the 1979/80 fiscal year are less than $900,000, the Trust Account will continue to be maintained after July 1, 1980 until either (i) tax allocation revenues in a subsequent fiscal year reach $900,000, in which event the Trust Account may thereafter be used by the agency for any lawful purposes; or, (ii) the Trust Account is transferred to the fiscal agent to pay needed debt service on the bonds. Moneys in the Trust Account shall be invested and interest earned will remain in the Trust Account.

Distribution of Bond Proceeds

Proceeds from the bond issue will be used to finance land acquisition, site improvements, and redevelopment in the project area and to pay the related financing costs. Table 2 shows the estimated distribution of bond proceeds.

Under the provisions of the Resolution, the fiscal agent will receive the proceeds from sale of the bonds and will apply them as follows:

1. A sum equal to the interest becoming due on the bonds to and including May 1, 1980 will be deposited in the Interest Account of the Special Fund.
2. A sum equal to one year's interest on the bonds will be deposited in the Reserve Account of the Special Fund.
3. The balance of the proceeds will be transferred to the treasurer of the agency and will be deposited in the Redevelopment Fund.

The Redevelopment Fund

The moneys set aside and placed in the Redevelopment Fund (established pursuant to Section 3.03 of the Resolution) are to be held in trust by the treasurer of the agency and are to be expended for the cost of the redevelopment project and other costs related thereto. Estimated expenditures from the Redevelopment Fund are summarized in Table 2. These estimates are based on projected redevelopment activities as defined by the Redevelopment Consultant, the agency staff, and as reviewed by the agency board.

The agency is obligated, pursuant to the Resolution, to invest proceeds held in the Redevelopment Fund during the period of project development. Interest earned on said investment of proceeds shall be deposited in the Trust Account to be held and disbursed as described above.

The Special Fund

All tax revenues, as defined under the heading "Security," below, are to be deposited in the Merced Redevelopment Project Number 2 Special Fund (the "Special Fund"), held in trust by the fiscal agent and pledged to payment of the principal and interest on the bonds, subject to the terms and conditions of the Resolution. There are also established within the Special Fund the following special trust accounts:

1. Interest Account;
2. Principal Account;
3. Reserve Account;
4. Prior Redemption Account.

The fiscal agent is required, pursuant to the Resolution, to apply the tax revenues to the accounts within the Special Fund in the following manner, and in the following order:

1. **Interest Account:** Not later than April 30 of each year, commencing April 30, 1980, the fiscal agent will deposit into the Interest Account an amount which, together with any balance in the Interest Account, is equal to the interest coming due on the bonds on the next two succeeding interest payment dates.
2. **Principal Account:** Not later than April 30 of each year, the fiscal agent will deposit into the Principal Account an amount, which, together with any balance in the Principal Account, is equal to the principal coming due on the bonds on the next principal payment date.
3. **Reserve Account:** The fiscal agent will deposit into the Reserve Account any moneys required to maintain the balance of such account at a level at least equal to the amount of interest coming due on the bonds on the next two succeeding interest payment dates. Any resolution authorizing the issuance of additional bonds may increase the amount required to be kept in the Reserve Account.
4. **Prior Redemption Account:** After making the deposits listed above, the balance of any tax revenues received by the fiscal agent will be deposited in the Prior Redemption Account. Any funds in the Prior Redemption Account may be used for the purchase and cancellation of bonds at any time. On or after May 1, 1988, all funds in the Prior Redemption Account must be used to call and redeem bonds at any one time in amounts not less than $50,000. Any funds in the Prior Redemption Account may be used to pay principal or interest coming due on the bonds if there are insufficient funds in the Interest, Principal or Reserve Accounts.

Notwithstanding the foregoing, if on any July 30, beginning July 30, 1981, (1) tax revenues received in the prior fiscal year equalled or exceeded $1,200,000, and (2) there was no material change in the status of the Redevelopment Project or other event which would be likely to result in the diminution in the increment in the present fiscal year by more than five percent (5%) compared to the prior fiscal year, as certified by an Independent Redevelopment Consultant to the agency and filed with the fiscal agent, then any tax revenues received in such prior fiscal year in excess of the $1,200,000 may be transferred out of the Prior Redemption Account, but only to reimburse the city or any other public agency for advances to or expenses incurred on behalf of the project, provided that said transfer must be made prior to the next succeeding June 30.

Bond Reserve

An amount equal to the interest coming due on the bonds on the next two succeeding interest payment dates is to be maintained in the Reserve Account of the Special Fund as a bond reserve. (See the heading, "The Special Fund—Reserve Account" above.)

Security

Under provisions of the California Constitution, the Community Redevelopment Law, and the Resolution, taxes on all taxable property in the redevelopment project area levied and collected by any taxing agency will be divided as follows:

1. An amount each year equal to the amount which would have been produced by that year's tax rates applied to the assessed valuation of such property within the redevelopment project area last equalized prior to the effective date of the ordinance approving the redevelopment plan (the 1973/74 base year assessment roll) will be paid into the funds of the respective taxing agencies;
2. Taxes received over and above the amount required to be paid to such taxing agencies (the "tax revenues"), will be deposited in the Special Fund of the Agency. Such amount will be affected by two variables: (i) assessed valuation, which can increase or decrease from the base roll, and (ii) tax rates, which can increase or decrease in any particular year. (See discussion below under heading, "Property Tax Rate Limitations".)

The bonds are payable from any available funds of the agency but are specifically secured only by a pledge of the tax revenues. All moneys in the Special Fund are pledged to the payment of the bonds, except for authorized payments to the city or any other public agency described under the heading "The Special Fund—Prior Redemption Account" above. The agency has no power to levy and collect taxes, and any legislative property tax deemphasis, or provision of additional sources of income to the taxing agencies having the effect of reducing the property tax rate, must necessarily reduce the amount of tax revenues that would otherwise be available to pay the principal of, and interest on, the bonds. Likewise, broadened property tax exemptions could have a similar effect. Conversely, any increase in the tax rate or assessed valuation, or any reduction or elimination of present exemptions would necessarily increase the amount of tax revenues that would be available to pay principal and interest on the bonds.

The bonds are not a debt of the City of Merced, the State of California, or any of its political subdivisions, and neither said city, state, nor any of its political subdivisions is liable therefor. The bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

Property Tax Rate Limitations

The California Legislature has enacted legislation intended to limit future increases in ad valorem property tax rates. This legislation generally limits all future general purpose tax rates to those imposed during either the 1971/72 or 1972/73 fiscal years, or the rates set by the enabling statute of the particular taxing entity. Tax rate limits may be raised by any amount which is approved by a majority vote of the electorate. Tax rates may also be increased under an inflation or "cost-of-living" formula incorporated in the legislation. This legislation does not restrict tax rates levied for certain limited purposes, e.g., general obligation bonds or for voter approved pension plans. (See discussion of proposed changes in this law under the heading "Proposed Constitutional Amendments and Related Legislation" below.)

Certain exemptions from property taxes have been granted to specific classes of property located in California. Revenues lost by local taxing agencies from two of these exemptions (the homeowners' property tax exemption and the business inventory exemption) are reimbursed by the State and are allocated to eligible redevelopment agencies in the same manner as locally collected taxes. Revenues lost as a result of other types of exemptions are not reimbursed.

There is no assurance that additional tax rate limitations or exemptions will not be approved, nor is there any assurance that revenues lost will continue to be reimbursed to local taxing agencies or allocated to redevelopment agencies. To the extent that such limitations or exemptions are approved, and reimbursement and allocation of lost revenues are not made, the security of the bonds could be adversely affected. (See discussion of proposed change in the business inventory exemption under the heading "Proposed Constitutional Amendments and Related Legislation" below.)

Litigation

On December 30, 1976, in the case of *Serrano v. Priest,* 18 Cal.3d 728 (1976), the California Supreme Court affirmed a lower court decision holding the State's system of financing public elementary and secondary education unconstitutional under the equal protection provisions of the California Constitution and setting a period, ending September 3, 1980, for bringing such system into constitutional compliance. The court so held based on the premise that educational opportunity under the present system varies as a function of the assessed valuation per student in average daily attendance in a given school district, and that there was no compelling state interest justifying such discrimination.

The State Legislature in its 1977 session made certain adjustments in the system of financing public elementary and secondary schools in an effort to meet the requirements set forth in *Serrano v. Priest,* none of which has a significant adverse effect on redevelopment agency financing. Whether or not these adjustments will be held by the courts to be adequate, and, if not, what system of financing public elementary and secondary schools will be chosen for enactment by the State Legislature (and whether such system will meet the applicable constitutional provisions) is open to speculation. Any property tax deemphasis will necessarily have an adverse effect on the tax revenues to be received by the agency. Currently, such school districts levy taxes at rates within the project area equal to about 48% of the total tax rate. The projections contained in Table 3 assume that there will be *no* property tax deemphasis as a result of the decision in *Serrano v. Priest.*

On August 22, 1977 a lawsuit was filed in the Superior Court of California for the County of Los Angeles against 15 named cities and their redevelopment agencies located therein and the County Auditor-Controller alleging that the portion of the Community Redevelopment Law authorizing the financing of redevelopment projects utilizing tax increment funds derived from the allocation of property taxes within a redevelopment project area as applied in Los Angeles County is invalid under the Constitutions of California and the United States *(McNutt v. City of Los Angeles).* The lawsuit seeks a declaration that the statutory basis for tax increment financing is unconstitutional and an injunction preventing any payment of tax increment funds to defendants.

The Redevelopment Agency of the City of Merced is not a named defendant, but the complaint seeks a declaration that the statutory basis for tax-increment financing is unconstitutional and an injunction preventing any payment of tax-increment funds to defendant agencies.

The outcome of this litigation and any resulting effect upon the allocation of tax-increment funds derived from a redevelopment project area for the payment of debt service on tax allocation bonds outstanding at the time of the final decision are not determinable at this time. However, to the extent that any future decision in this case may limit or prohibit the current method of allocation of such tax-increment funds and construe such limitation or prohibition as applicable to previously issued bonds, the security for the bonds may be adversely affected or substantially eliminated.

Proposed Constitutional Amendments and Related Legislation

A proposed initiative constitutional amendment to the California Constitution entitled "Tax Limitation—Initiative Constitutional Amendment" (commonly called the "Jarvis-Gann Initiative") will be submitted to the voters at the June 6, 1978 statewide election.

The office of the Attorney General of the State of California has provided the following summary of the initiative:

> "TAX LIMITATION—INITIATIVE CONSTITUTIONAL AMENDMENT. Limits ad valorem taxes on real property to 1% of value except to pay indebtedness previously approved by voters. Establishes 1975/76 assessed valuation base for property tax purposes. Limits annual increases in value. Provides for reassessment after sale, transfer, or construction. Requires ⅔ vote of Legislature to enact any change in state taxes designed to increase revenues. Prohibits imposition by state of new ad valorem, sales, or transaction taxes on real property. Authorizes imposition of special taxes by local government (except on real property) by ⅔ vote of qualified electors. Financial Impact: Commencing with fiscal year beginning July 1, 1978, would result in annual losses of local government property tax revenues (approximately $7 billion in 1978/79 fiscal year), reduction in annual state costs (approximately $600 million in 1978/79 fiscal year) and restriction on future ability of local governments to finance capital construction by sale of general obligation bonds."

The agency cannot predict whether this initiative constitutional amendment will be approved by the voters of the state, or, if approved, whether the validity of the initiative will be challenged in the courts, or, if so challenged, whether the initiative will be upheld, in whole or in part. However, if the measure were to be approved by the voters and upheld by the courts, tax rates of the various public entities which levy taxes in the project area would be substantially reduced, and future increases in the assessed valuation of property in the project area would be limited, thus reducing the amount of the tax allocations otherwise available to the agency and adversely affecting the security of the bonds.

Also appearing on the June 6, 1978 ballot as Proposition No. 8 thereon is California Senate Constitutional Amendment No. 6. The proposed amendement would add Section 9.5 to Article XIII of the California Constitution to read as follows:

> PROPERTY TAXATION—OWNER-OCCUPIED DWELLINGS CONSTITUTIONAL AMENDMENT—Section 9.5. The Legislature may provide for the taxation of owner-occupied dwellings, as defined by the Legislature, or any fraction of the value thereof, at a rate lower than that levied on other property. In no event may the tax rate levied on other property be increased as a result of lowering the tax rate levied on owner-occupied dwellings.

On March 3, 1978, the Governor of the State of California signed into law Senate Bill No. 1 (Statutes of 1978, Chapter 24), commonly known as the "Behr Act." The Behr Act provides, among other things, for the taxation of owner-occupied dwellings at a different rate from other taxable property and revises the method under present law of computing the maximum property tax rates which may be levied on property of all types by local agencies. Under the Behr Act, tax rates in any future fiscal year are generally limited so that revenues produced with respect to "common property" will not exceed revenues produced in the immediately preceding fiscal year with respect to such property after adjustment by an inflation factor. "Common property" is generally defined as real property taxable in both taxable years, not in a redevelopment project area subject to tax allocation financing, and which, if not owner-occupied, has not had an increase in assessed values greater than 50%. These maximum tax rates are subject to provisions of present law permitting local agencies' voters' to impose higher maximum rates by a majority vote and permitting local agencies to levy additional taxes for enumerated purposes. The principal changes made by the Behr Act to present law limiting annual tax rate increases are (i) to take account of differential tax rates for owner-occupied dwellings and for all other property (see "Proposition 8" above); and (ii) to change the method of calculating the inflation factor.

The Behr Act also provides for a minimum 30% reduction in property taxes derived from owner-occupied dwellings. This reduction is accomplished by providing for the state to take over from local agencies certain costs of local welfare presently derived from taxes levied on owner-occupied dwellings. To the extent that this take-over does not result in a 30% reduction in property taxes on owner-occupied dwellings in any county, the act provides for state reimbursement to such county of an amount needed to permit a full 30% reduction in property taxes on owner-occupied dwellings, for distribution among taxing agencies in the county, as if such reimbursement had been paid by taxpayers.

The effect on future tax allocation increases of the 30% decrease in property taxes on owner-occupied dwellings will depend upon the number of owner-occupied dwellings in the project area, and the extent to which any of the 30% decrease is reimbursed to Merced County by the state in a manner which would permit such reimbursement to be treated as tax revenues. According to the Redevelopment Consultant, Mr. Richard H. Flint, the total assessed valuation of owner-occupied dwellings in the project area is less than 1% of the total assessed valuation of the project area. Inasmuch as the assessed value of owner-occupied dwelling units is small with respect to the overall project area, the 30% reduction in property taxes on owner-occupied dwellings of itself is not expected to have any substantial impact on the projected tax revenues from the project area.

The Behr Act specifically provides that it will become operative only if (i) Proposition 8 is approved by the voters at the June 6, 1978 election and (ii) Proposition 13, the Jarvis-Gann Initiative, is rejected by the voters at the June 6, 1978 election or declared unconstitutional by the courts. Due to these contingencies, the agency cannot predict if the Behr Act will ultimately become operative. If the act does become operative, the agency cannot predict what the combined effect of the 30% reduction in property tax on owner-occupied dwellings, and the changes made by the Behr Act in the method of calculating the maximum annual increase in ad valorem property tax rates, will have on future tax allocation increases. Insofar as the act becomes operative and its overall impact reduces or limits current or future available tax allocations, the security of the bonds would be adversely affected.

On April 20, 1978, the Governor signed Assembly Bill 7 (Statutes of 1978, Chapter IX) affecting the business inventory exemption. Under this law, the exemption will be raised from 50% to 100% in equal steps over the next five years. Local agencies, which are presently reimbursed by the state for the 50% business inventory tax exemption, will hereafter receive state reimbursement in each year equal to two times the state reimbursement for 1977/78, adjusted upward each year by an inflation factor, and reduced, in the years 1978/79 to 1982/83, by the amount of property tax actually levied on business inventories. This formula will mean that, in the future, increases in tax revenues to the agency derived from state reimbursement of the business inventory exemption will be limited to an inflation factor. This law will become effective only if the Jarvis-Gann Initiative fails to be adopted by the voters on June 6, 1978.

Issuance of Additional Bonds

Additional tax allocation bonds on a parity with the bonds may be issued to pay costs of the project provided:

1. The agency is in compliance with all covenants set forth in the Resolution.
2. Tax revenues produced from the most recent assesed valuation of taxable property in the redevelopment project area (plus, at the option of the agency, estimated additional tax revenues to be received within any of the next three years following the date the computation is made, due to expected increases in assessed valuations from construction in progress (as defined in the Resolution), as shown by a certificate or opinion of an Independent Redevelopment Consultant) are at least equal to 1.4 times Maximum Assumed Annual Debt Service. [Maximum Assumed Annual Debt Service shall be the maximum amount which would be payable as interest on and principal of all outstanding bonds (including any additional bonds to be issued) in any year ending May 1, assuming that a portion of such series of bonds and the additional bonds to be issued, are retired each year until the final maturity of each such series in such a manner that annual debt service over the life of all such bonds and additional bonds is approximately equal, as certified by an Independent Financial Consultant to the agency, and excluding from such calculation of outstanding bonds, in the manner provided in the Resolution, any amount then on deposit in the Prior Redemption Account.]
3. There has been no material change in the status of the Redevelopment Project or other event which would be likely to result in the diminution in the increment in the present fiscal year by more than five percent (5%) compared to the prior fiscal year, as certified by an Independent Redevelopment Consultant to the agency and filed with the fiscal agent.
4. Bond proceeds are deposited in the Reserve Account in an amount sufficient to bring the Reserve Account to a level at least equal to interest coming due on the bonds on the next two succeeding interest payment dates.
5. The additional bonds mature on May 1 and interest thereon (after the first year) is payable on May 1 and November 1. None of the additional bonds may mature or be callable earlier than May 1, 1988, and the final maturity of the additional bonds may not be earlier than May 1, 2008.

Refunding Bonds

The agency may issue refunding bonds for the purpose of paying or retiring outstanding bonds subject to their applicable redemption provisions.

Investment of Funds

All moneys in the Redevelopment Fund and the Trust Account and all moneys held by the fiscal agent pursuant to the Resolution shall be invested to obtain the highest yield practicable, in the sole discretion of the fiscal agent or the agency.

Moneys in the Redevelopment Fund, the Trust Account, and the Special Fund accounts shall be invested as permitted by law, and if deposited in time or demand deposits, must be secured at all times by obligations eligible to secure deposits of public moneys and must be of a market value at least equal to the amount required by law. Under the terms of the Resolution, Redevelopment Fund and Trust Account investments must mature not later than the dates estimated by the agency that such funds will be required. Special Fund investments must mature in such a manner as to assure that moneys will be available to meet debt service payments as required.

Other Covenants

Other selected covenants of the agency under the Resolution are summarized below:

1. The project will be completed with all practicable dispatch in a sound and economical manner and in accordance with the Redevelopment Plan and the Community Redevelopment Law. The Redevelopment Plan may be amended as provided in the law but no amendment shall be made which would substantially impair the security of the bonds or the rights of the bondholders.
2. The agency will manage and operate all properties owned by it and comprising any part of the Redevelopment Project in a sound and businesslike manner.
3. The agency will punctually pay, or cause to be paid, the principal and interest becoming due on the bonds.

4. The agency will punctually pay, or cause to be paid, any lawful governmental charges imposed and all claims for labor, materials and supplies which if unpaid might become a lien or charge which might impair the security of the bonds.
5. The agency will at all times keep, or cause to be kept, proper and current books and accounts (separate from other records and accounts) in which complete and accurate entries will be made of all transactions relating to the redevelopment project and the tax revenues, and will prepare within 120 days after the close of each fiscal year a complete financial statement covering the redevelopment project and tax revenues, certified by an independent certified public accountant selected by the agency, copies of which will be furnished to any bondholder upon written request.
6. The net proceeds realized by the agency from any eminent domain proceeding will be deposited in the Special Fund for the purpose of paying principal and interest on the bonds.
7. The agency will not dispose of more than 10% of the land area in the redevelopment project area to public bodies or other entities whose property is tax exempt (other than property shown by the Redevelopment Plan as planned for such ownership) if as a result of such action the security of the bonds or the rights of the bondholders will be substantially impaired (in the opinion of separate independent Real Estate and Financial Consultants), or unless the new owner agrees to pay the fiscal agent an amount equal to the tax revenues which would be derived from such property.
8. The agency will protect and defend the security of the bonds and the rights of the bondholders and will take no action to impair the tax exempt status of the bonds.

Remedies

Any bondholder has the right of mandamus or other appropriate remedy to compel the performance by the agency and its members of the duties imposed by the Resolution and by the Community Redevelopment Law.

Amendment of the Resolution

The resolution may be modified or amended only with the consent of holders of 60% of all bonds and additional bonds then outstanding (exclusive of issuer-owned bonds), unless the modification or amendment is for the purpose of curing ambiguities, defects, etc. having no adverse effect on bondholder rights, in which case no bondholder's consent is required. No modification or amendment will extend the maturity, reduce the interest rate or principal amount payable or reduce the percentage of consent required for amendment without the express consent of the bondholders.

TABLE 2
BOND ISSUE REQUIREMENT

ESTIMATED PROJECT COSTS*	
Land acquisition and site improvements	
Downtown revitalization program	$3,428,025
Housing projects	684,100
Civic-community complex	922,550
Total Land Acquisition and Site Improvements	$5,034,675
Administration, design and engineering	772,153
Contingency	198,172
Total Estimated Project Costs	$6,005,000
ESTIMATED FINANCING COSTS†	
Funded interest (24 months)‡	$1,360,000
Bond reserve fund‡	680,000
Legal, financing and incidentals	200,000
Total Estimated Financing Costs	$2,240,000
Total financing requirement	$8,245,000
Plus: maximum discount allowed (3%)	255,000
Total Bond Issue Requirement	$8,500,000

* Source: Redevelopment Consultant, Mr. Richard H. Flint.
† Source: Financing Consultants, Loeb Rhoades, Hornblower & Co.
‡ Estimated maximum legal interest rate, 8%.

THE PROJECT

The Merced Redevelopment Project Number 2 consists of 710 acres encompassing a major portion of the downtown commercial core and the Southern Pacific Industrial Park situated to the northwest of the downtown. The downtown portion of the project area is generally characterized by vacant or underutilized parcels, inadequate streets and utilities, and other physical conditions impeding logical development in conformity with the general plan for the area. The industrial park was opened in April, 1977 and is currently 33% occupied. The remaining vacant properties in the park are suitable for immediate development with little or no additional expenditure required by the agency.

The objectives of the agency in the project area are as follows:

1. Strengthen retail and other commercial functions in downtown Merced by creating sites for major comparison retail facilities and related commercial uses.
2. Strengthen the economic base of the project area and the community by installing needed site improvements in the industrial area thereby stimulating new industrial expansion and resulting employment and economic growth.
3. Eliminate blighting influences, including deteriorating buildings, incompatible and uneconomic land uses, obsolete structures, and other environmental, economic and social deficiencies; improve the overall appearance of downtown buildings, streets, parking areas and other facilities, public and private.
4. Provide adequate streets, curbs, gutters, street lights and permit improved pedestrian and/or vehicular circulation in the project area.
5. Provide adequate land for parking and open spaces.
6. Enhance the role of the central area of Merced by strengthening the civic, community, and cultural functions within the central area.
7. Preserve artistically, architecturally and historically worth while structures and sites.
8. Establish and implement performance criteria which assure the highest site design standards and environmental quality and other design elements which provide unity and integrity to the entire project.
9. Strengthen the attraction of the downtown area in the vicinity of the project area for housing.

The proceeds of the currently offered $8,500,000 bond issue are presently proposed to be used in connection with a downtown revitalization program, various housing projects, and the development of a civic-community complex.

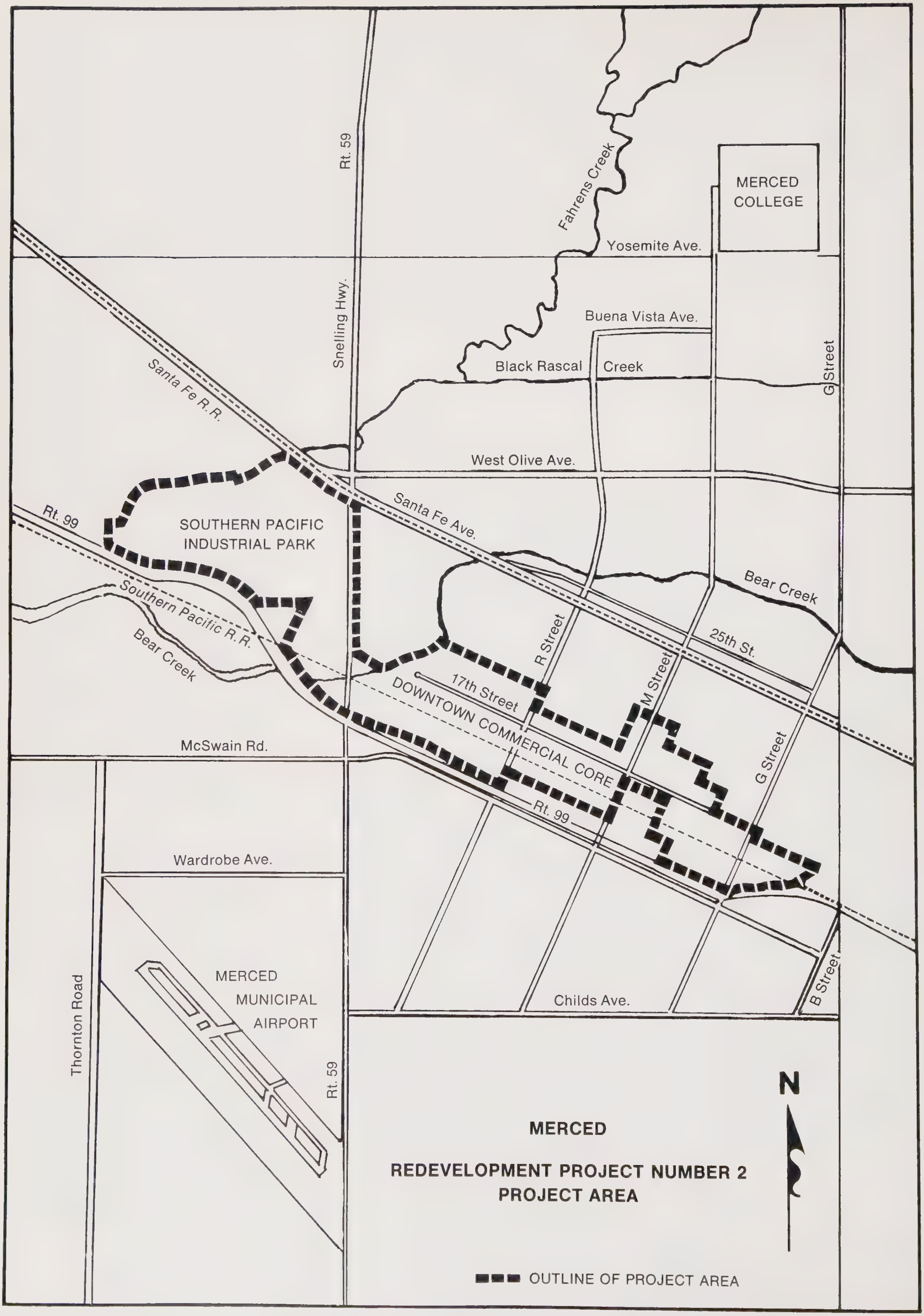
The downtown revitalization program consists chiefly of the rehabilitation of 17th Street, a major city thoroughfare; the completion of a new mini-park to be referred to as "main-street square"; the construction of various walkways and other pedestrian and traffic flow improvements; and provision for additional parking facilities.

The housing program involves land acquisition to provide space for construction of 35 moderately-priced ($30-35,000) single family homes and a 16-unit apartment complex. In addition, the agency will be involved in land acquisition, demolition and relocation activities to accommodate a senior citizens' housing project. Plans call for a maximum of 150-units to be constructed within a nine-story structure.

The civic-community complex is intended to eventually accommodate city administrative offices and space for civic-cultural activities, including meeting rooms, an auditorium and exhibit areas. The agency intends to use bond proceeds to acquire land for the civic-community complex.

Redevelopment agency activities in the industrial park involving land acquisition and site improvements have been substantially completed. The park is currently occupied by four tenants utilizing 95 acres of the 290-acre park. The agency anticipates that the available space in the park will be occupied in the future.

Table 2 summarizes the currently anticipated use of bond proceeds. Financing costs include a bond reserve fund equal to one year's annual interest costs and capitalized interest for the first 24 months.


MERCED COLLEGE
Fahrens Creek
Rt. 59
Yosemite Ave.
Snelling Hwy.
Buena Vista Ave.
Black Rascal
Creek
G Street
Santa Fe R.R.
West Olive Ave.
Santa Fe Ave.
Rt. 99
SOUTHERN PACIFIC
INDUSTRIAL PARK
Bear Creek
Southern Pacific R.R.
Bear Creek
R Street
25th St.
M Street
17th Street
DOWNTOWN COMMERCIAL CORE
G Street
McSwain Rd.
Rt. 99
Wardrobe Ave.
MERCED
MUNICIPAL
AIRPORT
Thornton Road
Rt. 59
Childs Ave.
B Street
N
MERCED
REDEVELOPMENT PROJECT NUMBER 2
PROJECT AREA
OUTLINE OF PROJECT AREA

THE REDEVELOPMENT AGENCY OF THE CITY OF MERCED

Authority and Personnel

The Redevelopment Agency of the City of Merced (the "agency") was activated in 1957 by a city ordinance pursuant to the California Community Redevelopment Law (California Health and Safety Code Section 33000 et seq.). The members of the city council serve as the governing board for the agency. The agency is a separate public body and exercises governmental functions in planning and carrying out redevelopment projects. The agency can facilitate the development of on- and off-site improvements, acquire and resell property, construct public buildings and provide services to the project area.

Mr. Allan R. Schell, city manager, serves as the agency executive director. City attorney and general counsel to the agency is Mr. William J. Adams. The special counsel to the agency is Mr. Joseph E. Coomes, Jr. Mr. Coomes also serves as counsel to the redevelopment agencies of the Cities of Compton, Santa Rosa, Glendora, Hawthorne, San Leandro, Fairfield, Redding, and others. Mr. Richard Flint, Flintloch, Inc., serves as Redevelopment Consultant to the agency.

The redevelopment agency established a Project Area Committee (the "committee") by resolution dated February 1, 1974. The committee is composed of eleven members of the community within the project area representing commercial, light industrial, and residential interests. The committee advises the governing board of the agency on redevelopment issues relating to the project area.

Powers

All powers of the agency are vested in the governing board. Under the Community Redevelopment Law, the agency is a separate public body and exercises governmental functions in planning and carrying out redevelopment projects. The agency has broad general powers to fulfill the objectives contained in the redevelopment plan, including the power and authority to complete those projects outlined in the section headed "Project".

The Redevelopment Plan

The city council adopted Ordinance No. 1118 dated August 5, 1974 which established a redevelopment plan for the Merced Redevelopment Project Number 2 (the "plan"). The plan was amended by Ordinances numbered 1200 and 1210 dated September 6, 1977 and February 6, 1978, respectively. The plan is designed to enable the agency to eliminate and prevent blight in the project area. The plan authorizes the agency to pursue the elimination of blight through the following:

1. Acquisition of property;
2. Demolition, clearance of properties acquired, public improvements, building and site preparation;
3. Improvement, where necessary, of vehicular and pedestrian circulation and parking facilities;
4. Participation by owners and tenants through the improvement by them of their properties and business facilities or through other opportunities to participate in the redevelopment project;
5. Relocation assistance to displaced residential and non-residential occupants as required by law;
6. Rehabilitation of structures;
7. Other action as appropriate, including, but not limited to, actions to assist property owners and tenants in the improvement of their properties to carry out the objectives of the redevelopment plan.

The plan provides that the city may participate in the implementation of the redevelopment project to include but not be limited to the following:

1. Institution and completion of proceedings for opening, closing, vacating, widening, or changing the grades of streets, alleys, and other public rights-of-way, and for other necessary modifications of the streets, the street layout, and other public rights-of-way as appropriate to carry out this plan.
2. Institution and completion of proceedings necessary for changes and improvements in private and public-owned utilities within or affecting the project area.
3. Imposition wherever necessary (by conditional use permits or other means) of appropriate controls within the limits of this plan upon parcels in the project area to ensure their proper development and use.
4. Provision for administrative enforcement of this plan by the city after development. The city and the agency shall develop and provide for enforcement of a program for continued maintenance by owners of all real property, both public and private, within the project area throughout the duration of this plan.
5. Preservation of historical sites.
6. Performance of the above, and of all other functions and services relating to public health, safety, and physical development normally rendered in accordance with a schedule which will permit the redevelopment of the project area to be commenced and carried to completion without unnecessary delays.
7. The undertaking and completion of any other proceedings necessary to carry out the project.

After development, the plan specifies that the administrative enforcement of the goals and objectives be performed by actions of both the city and the agency, and the plan specifically provides that its terms and conditions may also be enforced by court litigation instituted by either the agency or the city. Among other conditions, the plan provides that traffic circulation will be improved for residents of the project area and surrounding areas, that there will be no detrimental environmental quality effect upon the residents of the project area and surrounding areas, and that project activities will include the upgrading of the physical and social quality of the neighborhood through improved lighting, increased parking, and other improvements.

California Environmental Quality Act

The projects to be undertaken by the agency are subject to the California Environmental Quality Act of 1970, as amended, ("CEQA") which requires the preparation, distribution and consideration of environmental impact reports ("EIR's"). An environmental impact report was prepared and certified for the adoption of the redevelopment plan. CEQA provides that all subsequent activities pursuant to or in furtherance of a redevelopment project constitute a single project deemed approved at the time of the adoption of the plan. In accordance with the above, subsequent redevelopment activities are reviewed by the agency to determine the extent to which they may require any additional environmental assessment not covered by the original project EIR.

ESTIMATED TAX REVENUES AND BOND RETIREMENT

The California Community Redevelopment Laws provide a means of financing redevelopment projects based upon the allocation of property taxes collected within a project area. The frozen tax base multiplied by the tax rate applicable in any future year will produce the base levy which goes to the taxing entities. The tax revenue produced by multiplying any increases in assessed valuation over the frozen tax base by the current tax rate are paid to the agency and may be pledged by the agency to the repayment of any indebtedness incurred in financing or refinancing the project. Redevelopment agencies themselves have no authority to levy taxes but depend principally upon such allocation of tax revenues for the repayment of debt.

Assessed Valuation and Tax Increment

The Assessor of Merced County assesses all taxable property in the project area except public utility property, which is assessed by the State Board of Equalization at 25% of market value. The State Board of Equalization reports that the 1977/78 Merced County assessed valuation averages 22.9% of market value.

The valuation of secured property is established as of March 1 of each year, is equalized for purposes of establishing tax rates in August, and the first installment of taxes becomes payable the following November.

Taxes are due to be received by the Merced County Tax Collector on or before the delinquency dates of December 10 and April 10 for each installment of the taxes levied. Taxes on unsecured property (personal property and leaseholds) are due on August 31 of each year based on the preceding fiscal year's tax rate.

The Merced County Auditor-Controller's office allocates unsecured taxes based on the prior years' secured tax rate in October. The balance of unsecured taxes is forwarded in May. The secured taxes are forwarded to the agency in approximately two equal installments: 52% of the tax levy in January and the remaining 48% in May. The balance of secured taxes collected after April 10 but before June 30 are forwarded to the agency in the following July. Delinquent secured and unsecured taxes collected after June 30 are forwarded to the agency as received.

Table 3 presents a history of growth of assessed valuations in the Merced Redevelopment Project Number 2 project area since the base year, 1973/74. The assessed valuation was originally established at $13,320,310. Since 1973/74, the total assessed valuation has increased approximately 62%. The secured property in the project area has increased approximately 66% in value while the unsecured property has grown over 56%. The 1977/78 assessed valuation of $21,579,520 represents an increment of $8,259,210 over the base year.

Tax allocations received to date do not include any revenue from residential properties located within the project area. The 5.5 acres of residential property in the project area have not been reassessed since the base year 1973/74, resulting in no increment available to the agency from this source. The major source of increment to date has been construction in the industrial park and the downtown area.

Mr. Richard H. Flint, Consultant to the Redevelopment Agency of the City of Merced, has developed assessed valuation projections for the project area. Mr. Flint estimates that during the next three fiscal years, property in the project area will increase approximately $1,000,000 per year in full-value, or approximately $250,000 per year in assessed value. These projections are based on new construction in progress, building restoration, and reassessments. Mr. Flint has cited five commercial properties to be operational in 1978/79, 35 new single family residences to be completed in 1978/79, and miscellaneous building improvements completed or underway.

Mr. Flint apportioned the $250,000 increase per year in assessed valuation to secured property and utility property. In 1978/79 Mr. Flint anticipates a $187,500 increase in secured property assessed valuation and a $62,500 increase in utility property. In 1979/80 and 1980/81, Mr. Flint projected a $162,500 increase in secured property assessed valuation and an $87,500 increase in utility property for each year. No projections were made regarding unsecured property.

The projections for increases in assessed valuation in the project area do not include provision for additional industrial development in the Southern Pacific Industrial Park, which opened in April, 1977. The park is now occupied by four tenants including Ragu' Industries, more fully described on page 28. Although additional development in the park is anticipated in the future, Mr. Flint relied on rehabilitation and completion of the downtown business district and expanded housing projects as the bases for increases in assessed valuation.

Tax Allocations and Bond Retirement

Table 3 lists tax revenue disbursed to the agency based on the increment over the base year in the project area. In 1975/76 the secured increment of $2,801,840 produced a tax allocation of $360,961. A portion of this tax allocation ($168,703) was actually disbursed to the agency in 1976/77. The 1976/77 assessed valuation increment of $7,320,600 yielded $728,342 based on a tax rate of $11.22 per $100 assessed valuation.

The audited financial statements and auditor's opinion regarding the project area are presented on page 18. These statements aggregate transactions for the project area since inception through January 31, 1978. During this period, the agency received $1,089,303 in taxes resulting from the 1975/76 and 1976/77 disbursements as discussed above. Allocations for 1977/78 have been made subsequent to January 31, 1978.

In 1977/78 the first installment of secured taxes representing 52% of the secured levy and substantially all of the unsecured taxes have already been received by the agency. The secured allotment was $392,832 and the unsecured amount was $231,793. The second installment of secured taxes of $278,891 is expected in May, 1978. This amount represents 48% of the total secured tax levy minus a 2.5% delinquency allowance.

Projections for tax allocations to the agency for 1978/79 through 1980/81 have been developed by the consultant to the agency, Mr. Richard H. Flint. In developing projections, Mr. Flint applied a tax rate of $11.22 per $100 assessed valuation to the projected incremental assessed valuations and allowed a 2.5% delinquency rate per year. The delinquency rate city-wide has averaged 1.64% per year over the past five years.

As presented in Table 3, according to Mr. Flint, the 1978/79 increment of $8,509,210 should produce a tax allocation of $930,865 based on the tax rate of $11.22 applied to the projected increment and allowing a 2.5% delinquency rate for tax receipts. Using the same formula, Mr. Flint projected a $958,214 tax allocation in 1979/80 and a $985,562 tax allocation in 1980/81.

Table 4 presents the tax rates for all tax code areas within the project area. The tax rates are a combination of the various tax rates levied by overlapping public agencies. There are seven tax code areas in the redevelopment project area with tax rates for 1977/78 ranging from $11.21 to $11.22. Tax Code Area 5-11 has the highest assessed value in the project area, encompassing over 90% of the redevelopment area's total assessed value. The tax rate for this code area is $11.22.

TABLE 3
MERCED REDEVELOPMENT PROJECT AREA NUMBER 2
ACTUAL AND PROJECTED ASSESSED VALUATION AND TAX ALLOCATION

	Assessed Valuations					
	Secured	*Utility*	*Unsecured*	*Total*	*Incremental Assessed Valuation*	*Tax Allocation*
ACTUAL*						
1973/74 BASE YEAR	$ 7,829,260	$2,026,630	$3,464,420	$13,320,310	$ —	$ —
1975/76	10,363,900	2,293,830	—	12,657,730	2,801,840†	360,961
1976/77	13,082,630	2,817,120	4,741,160	20,640,910	7,320,600	728,342
1977/78	13,073,080	3,084,310	5,422,130	21,579,520	8,259,210	903,516‡
PROJECTED§						
1978/79	$13,260,580	$3,146,810	$5,422,130	$21,829,520	$8,509,210	$ 930,865§
1979/80	13,423,080	3,234,310	5,422,130	22,079,520	8,759,210	958,214§
1980/81	13,585,580	3,321,810	5,422,130	22,329,520	9,009,210	985,562§

* Source: Merced County Auditor-Controller.

† Increment based on difference of 1973/74 secured valuation before state exemptions and 1975/76 secured valuations after state exemptions.

‡ Includes $392,832 secured levy and $231,793 unsecured levy already received by the agency and $278,891 secured levy anticipated to be received in the second installment.

§ Source: Consultant to Redevelopment Agency of Merced, Richard A. Flint. Based on $11.22 tax rate per $100 assessed valuation and includes a 2.5% delinquency allowance.

TABLE 4
TAX RATES WITHIN
PROJECT AREA NUMBER 2

*Tax Code Area**	*1976/77*	*1977/78*
5-09	$11.84	$11.22
5-11†	11.84	11.22
5-12	11.84	11.22
5-13	11.84	11.22
5-14	—	11.21
5-15	—	11.21
5-16	—	11.21

* Tax rates per $100 assessed valuation for each tax code area within the Merced Redevelopment Project Number 2.

† Tax Code Area 5-11 has the highest assessed value, encompassing over 90% of the total assessed valuation in the project area.

Source: Merced County Auditor-Controller.

Trust Account

The agency covenants, in the Resolution, that it will deposit into the Merced Redevelopment Project Number 2 Trust Account $842,000 of its present cash balance. If tax allocation revenues for the 1979/80 fiscal year are more than $900,000, the Trust Account may thereafter be used by the agency for any lawful purposes. If tax allocation revenues for the 1979/80 fiscal year are less than $900,000, the Trust Account will continue to be maintained after July 1, 1980 until either (i) tax allocation revenues in a subsequent fiscal year reach $900,000, in which event the Trust Account may thereafter be used by the agency for any lawful purposes; or, (ii) the Trust Account is transferred to the fiscal agent to pay needed debt service on the bonds. The Trust Account shall be invested and interest earned will remain in the Trust Account.

Bond Retirement

Table 5 presents the Tax Allocation Revenue accruing to the agency through 1989/90, assuming continuation of the 1977/78 level of tax rates and projected increases in assessed valuation. These tax revenues are pledged exclusively to service of the agency bonds and to reimburse the city or any other public agency for advances to or expenses incurred on behalf of the project, if certain earnings tests are met. It is shown in Table 5 that these revenues could, under assumptions noted in Table 5, be sufficient to retire the bonds by May 1, 1990.

TABLE 5
BOND ISSUE RETIREMENT BASED ON NOTED ASSUMPTIONS

	Balance in Special Fund Accounts	*Estimated Tax Allocation**	*Estimated Interest Earned†*	*Principal Outstanding*	*Interest due Estimated at 8%‡*	*Principal Redeemed May 1*	*Premium*
1978/79	$ —	$930,865	$125,272	$8,500,000	$680,000§	$ —	$ —
1979/80	1,056,137	958,214	137,962	8,500,000	680,000§	—	—
1980/81	2,152,313	985,562	152,740	8,500,000	680,000	—	—
1981/82	2,610,615	985,562	177,529	8,500,000	680,000	—	—
1982/83	3,093,706	985,562	203,651	8,500,000	680,000	—	—
1983/84	3,602,919	985,562	231,179	8,500,000	680,000	—	—
1984/85	4,139,660	985,562	260,185	8,500,000	680,000	—	—
1985/86	4,705,407	985,562	290,750	8,500,000	680,000	—	—
1986/87	5,301,719	985,562	322,958	8,500,000	680,000	—	—
1987/88	5,930,239	985,562	356,896	8,500,000	680,000	6,400,000	192,000
1988/89	697	985,562	63,056	2,100,000	168,000	850,000	21,250
1989/90	10,065	985,562	66,294	1,250,000¶	100,000	1,250,000	25,000

* Source: Redevelopment Agency Consultant, Mr. Richard H. Flint, based on continuation of tax rate of $11.22 per $100 assessed valuation and projected increases in assessed valuation, with a 2.5% delinquency allowance, as discussed under the heading "Assessed Valuation and Tax Increment" above. This estimate does not take account of possible changes in law affecting tax allocations. See headings "The Bonds—Proposed Constitutional Amendments and Related Legislation" and "The Bonds—Litigation" above.

† Interest earned is based on an annual 5% per annum return on invested funds in the Special Fund, on tax allocation revenue currently received, and on funded interest and reserve accounts. Not included is interest earned on the Redevelopment Fund or Trust Account.

‡ The first interest payment is due May 1, 1979 and is paid semiannually thereafter on November 1 and May 1.

§ Interest for the first 24 months will be funded from bond proceeds.

¶ Estimated balance in Reserve Account of $680,000 available for the final retirement of remaining outstanding bonds.

MARTIN, FERNANDES & LEMASTER
ACCOUNTANCY CORPORATION

RONALD J. FERNANDES C.P.A.
IRA C. LEMASTER C.P.A.

MODESTO CALIFORNIA 95354
209 574 6638

Redevelopment Agency of the City of Merced
Merced, California 95340

Gentlemen:

We have examined the accompanying balance sheet of the MERCED REDEVELOPMENT PROJECT # 2 as of January 31, 1978, and the related statements of operations and changes in financial position for the period July 1, 1973 to January 31, 1978.

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the Redevelopment Agency as of January 31, 1978, and the results of operations and changes in financial position for the period indicated above, in conformity with generally accepted municipal accounting principles.

Respectfully submitted,

MARTIN, FERNANDES & LEMASTER
ACCOUNTANCY CORPORATION

Robert G. Martin

Robert G. Martin, CPA
President

March 7, 1978

MERCED REDEVELOPMENT PROJECT # 2 — EXHIBIT A
BALANCE SHEET
JANUARY 31, 1978

ASSETS

CURRENT ASSETS:		
Cash in Bank - Checking	$ 237	
Cash in Bank - Savings	563,813	$ 564,050
FIXED ASSETS:		
Project Costs To Date	$ 612,978	
Deposited With State of California - Land	132,000	$ 744,978
TOTAL ASSETS		$ 1,309,028

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES:		
Due To City of Merced	$ 174,038	
Due To Merced Downtown Improvement District	516	$ 174,554
FUND BALANCE - Exhibit B		1,134,474
TOTAL LIABILITIES AND FUND BALANCE		$ 1,309,028

The accompanying letter and footnotes are an integral part of this financial statement.

MERCED REDEVELOPMENT PROJECT # 2 — EXHIBIT B
STATEMENT OF OPERATIONS
FOR THE PERIOD JULY 1, 1973 TO JANUARY 31, 1978

BEGINNING FUND BALANCE		$ -0-
REVENUE:		
Tax Increment	$ 1,089,303	
Rent	14,503	
Interest	30,677	
Total Income	$ 1,134,483	
EXPENDITURES:		
Printed Checks	9	
EXCESS OF REVENUE OVER EXPENDITURES		$ 1,134,474
FUND BALANCE - January 31, 1978		$ 1,134,474

The accompanying letter and footnotes are an integral part of this financial statement.

MERCED REDEVELOPMENT PROJECT # 2 — EXHIBIT C
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE PERIOD JULY 1, 1973 TO JANUARY 31, 1978

SOURCE OF FUNDS:		
Excess of Revenue Over Expenditures - Exhibit B	$ 1,134,474	
Funds Advanced by the City of Merced	174,038	
Funds Advanced by the Merced Downtown Improvement District	516	$ 1,309,028
APPLICATION OF FUNDS:		
Investment In Project	$ 744,978	
Increase in Checking Account	237	
Increase in Savings Account	563,813	$ 1,309,028

The accompanying letter and footnotes are an integral part of this financial statement.

MERCED REDEVELOPMENT PROJECT # 2
FOOTNOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 1973 TO JANUARY 31, 1978

1. Summary of Significant Accounting Procedures:

   The Agency maintains its records on the cash basis. No depreciation of project assets is included.

2. Current Liabilities:

   Certain monies were advanced ty the City of Merced and the Merced Downtown Improvement District (MDID) from July, 1973 until such time as the Agency received its tax increment funds. A summary of these transactions is as follows:

	City	MDID
Year ended June 30, 1974	$ 42,363	$ 37,774
Year ended June 30, 1975	75,162	16,379
Year ended June 30, 1976	76,963	198
Year ended June 30, 1977	317,608	
Seven months Ended January 31, 1978	178,530	-
	$ 690,626	$ 54,351
Repaid by Agency	516,588	53,835
Balance Due	$ 174,038	$ 516

CITY ORGANIZATION AND FINANCIAL DATA

The City of Merced was incorporated April 1, 1889. On April 12, 1949, the electorate approved establishment of a charter form of government, which became effective July 26, 1949.

The Merced City Charter provides for election of a city council composed of seven members elected at large for overlapping four-year terms. The mayor is selected by the city council from among its membership. The day-to-day municipal activities of the city are administered in accordance with policies of the city council by an appointed professional city manager who serves at the council's pleasure.

The city employs approximately 319 persons and provides a high level of municipal services to more than 31,700 citizens. The major services provided by the city include police and fire protection, waste collection, sewer service, water service, park and recreation, planning, building inspection, and street maintenance and lighting. The city also operates a municipal airport.

Assessed Valuation

The City of Merced utilizes the facilities of Merced County for the assessment and collection of taxes for city purposes. City taxes are assessed and collected at the same time and on the same tax rolls as are county, school, and special district taxes. Assessed valuations of properties are the same for both city and county taxing purposes. The State Board of Equalization reports that the 1977/78 Merced County assessed valuation averages 22.9% of market value while the public utility assessed valuation is reported by the State Board of Equalization to average 25% of market value.

The equalization process tends to assure that tax impacts will be uniform throughout the state. Maximum tax rates in counties which assess above the 25% level are reduced by the percentage proportionate to the percentage of over-assessment. Conversely, counties that under-assess may adjust maximum tax rates to yield income based on a relationship of assessed valuation equal to 25% of full-market value. Rates below the statutory maximums are not affected by the equalization process.

The valuation of secured property is established as of March 1 of each year, is subsequently equalized in August, and the first installment of taxes becomes payable the following November. Taxes are due to be received by the Merced County Tax Collector on or before the delinquency dates of December 10 and April 10 for each installment of the taxes levied. Taxes on unsecured property (personal property and leaseholds) are due on August 31 of each year based on the preceding fiscal year's tax rate.

Under amendments adopted in 1968 to the Constitution and Statutes of the State of California, two types of exemptions of property from ad valorem taxes were authorized beginning in the fiscal year 1969/70. The first of these exempts 50% of the assessed valuation of business inventories from taxation. (See discussion of proposed change in this exemption under the heading "The Bonds – Proposed Constitutional Amendments and Related Legislation" above.) The second provides for exemption of $1,750 of the assessed valuation of an owner-occupied dwelling for which application has been made to the county assessor. Revenue estimated to be lost to local taxing agencies due to such exemptions, however, is reimbursed from state sources and is available for payment as tax allocations. Such reimbursement is based upon total taxes due upon such exempt values

and therefore is not reduced by any amount for estimated delinquencies.

Table 6 presents assessed values for the city for the past five years. During this period, assessed values in the city, including the increment available to the city's redevelopment agency, have increased nearly 80%. The assessed value that constitutes the revenue source for the city, exclusive of the redevelopment agency increment, has risen nearly 67% during the past five years. 1977/78 secured property values exceed unsecured property values by a ratio of approximately seven to one.

Market Value

Table 7 presents the breakdown of the 1977/78 secured, utility, and unsecured property assessed valuations for revenue purposes in the city. Since the county assesses property at 22.9% of market value, according to the State Board of Equalization, while utility property is assessed at 25% of market value, the estimated market value of property outside of the redevelopment projects in Merced is $447,000,000. The estimated market value of property within the two redevelopment project areas is approximately $37,000,000, based on a local secured and unsecured valuation of $7,355,820. The estimated 1977/78 market value of all property within city limits is $484,000,000.

TABLE 6
CITY OF MERCED ASSESSED VALUATIONS

Fiscal Year	*Secured**	*Unsecured*	*Total Assessed Value for Revenue Purposes†*	*Redevelopment Agency Incremental Assessed Valuation‡*	*Total City Assessed Valuation*
1973/74	$52,615,550	$ 8,990,460	$ 61,606,010	$ 422,900	$ 62,028,910
1974/75	64,509,640	9,478,500	73,988,140	437,710	74,425,850
1975/76	76,554,490	11,140,860	87,695,350	3,127,330	90,822,680
1976/77	82,170,400	10,628,930	92,799,330	7,690,600	100,489,930
1977/78	90,558,910	12,274,680	102,833,590	8,639,100	111,472,690

* Includes property assessed by State Board of Equalization.
† Before homeowners' and business inventory exemptions.
‡ Includes 15th Street Project Area and Project Area Number 2.
Source: Merced County Auditor-Controller.

TABLE 7
CITY OF MERCED 1977/78 ASSESSED VALUATION

	City of Merced	*Redevelopment Agency Incremental Assessed Valuation*	*Total*
Local secured	$ 84,626,170	$5,293,550	$ 89,919,720
Utility	5,932,740	1,283,280	7,216,020
Unsecured	12,274,680	2,062,270	14,336,950
Assessed Value for Revenue Purposes	$102,833,590	$8,639,100	$111,472,690

Source: Merced County Auditor-Controller.

Employee Retirement

Under the terms of the public employees' retirement system of California (P.E.R.S.), the city provides a retirement plan covering all full-time employees. According to P.E.R.S. the total city contribution to P.E.R.S. in 1976/77 was $391,177. The city reports that $241,291 was contributed by employees during the same period. The percentage of salary to be contributed in 1977/78 by the city will be 10.090% of payroll for miscellaneous employee categories and 14.318% of payroll for safety category employees. Safety category employees will contribute between 5.85% to 13.05% of their payroll to P.E.R.S. in 1977/78, depending on seniority. Employees in other categories will contribute 4.66% of the first $400 of monthly salary and 7% of payroll thereafter in 1977/78.

P.E.R.S. is required by state law to undergo a systems evaluation at least every four years. Periodic intervening checks of actuarial assumptions and other aspects of the system are also made. The June 30, 1976 audit of P.E.R.S. by Coopers & Lybrand, certified public accountants, reported an accrued actuarial liability and present value of benefits for active and inactive members totalling approximately $14.6 billion. Assets available for benefits were placed at about $7.9 billion, leaving an unfunded liability of about $6.7 billion.

Upon completion of the 1975 systemwide evaluation, actuaries then determined that restoration and maintenance of the system's necessary balances required a three-step annual increase of 1% in the average percentage employer contribution beginning July 1, 1976.

As of July 1, 1977, P.E.R.S. calculated that the city had a present value liability for all benefits for safety category employees of $6,149,756 with cash and credited assets of $4,656,880, leaving an unfunded liability of $1,492,876. According to P.E.R.S., the city will amortize its unfunded liability for safety employees for current service and death benefits until the year 2000 and will amortize its unfunded liability for prior service obligations until the year 1982 at a current rate of 5.353% of payroll. These percentages are included in the percentage employer contributions for 1977/78 quoted above.

As of July 1, 1977, P.E.R.S. calculated that the city had a present value liability for prior service obligations for employees in miscellaneous categories of $361,602 with cash and credited assets of $126,587, leaving an unfunded liability of $235,015. The city will amortize this obligation until the year 2000 at a current annual rate of .830% of payroll. This percentage is included in the percentage employer contributions for 1977/78 quoted above.

There are no separate assets and liabilities for current service and death benefits for miscellaneous employee categories in the city because P.E.R.S. combines assets and liabilities for all members in these categories in P.E.R.S. The contribution rate to fund future funded liability for these benefits is not available for the city, but will be determined as part of the July 1, 1977 actuarial valuation.

Ten Largest Taxpayers

Table 8 lists the ten largest taxpayers in the city. The largest taxpayer, Pacific Telephone Company, has a secured assessed value of $3,807,060, or 4.2% of the locally secured assessed valuation ($89,919,720) within city limits. The next four largest taxpayers constitute 4.0, 3.0, 2.8 and 1.3 percent, respectively, of the city's secured assessed valuation. As a group, the city's ten largest taxpayers make up less than 18% of the city's secured assessed valuation.

TABLE 8
CITY OF MERCED
TEN LARGEST TAXPAYERS

Name	*Type of Business*	*1977/78 Secured Assessed Valuation*
Pacific Telephone Company	Utility	$ 3,807,060
Ragu'	Food processing	3,617,300
Cal-Can	Cannery	2,728,980
Pacific Gas & Electric	Utility	2,559,050
Goodyear Tire & Rubbber Company	Packaging film plant	1,138,940
Sears & Roebuck Company	Retail sales	700,060
Montgomery Wards	Retail sales	375,000
Codding Enterprises	Shopping center	279,250
Wainwright Enterprises	Subdividers-builders	256,140
Westgate Shopping Center	Retail sales	87,700
Total Secured Assessed Valuation		$15,549,480

Source: City of Merced Finance Department

Property Tax Limitation Legislation

Efforts to limit property taxes are underway both in the California Legislature and through the initiative process. On March 3, 1978, the legislature passed and the Governor signed a bill called SB1, commonly known as the "Behr Act", which would, among other provisions, reduce homeowner property taxes 30% by state assumption of certain costs now paid from homeowner property taxes, supplemented by state subventions to counties, increase state income tax credits to renters, revise the present law which limits annual increases in property tax rates of local government agencies. The Behr Act is contingent on passage of an enabling constitutional amendment and would not be consistent with the provisions of the Jarvis Initiative on the same ballot. Due to these contingencies, the agency cannot predict if the Behr Act will ultimately become operative. If the act does become operative, the agency cannot predict what the combined effect of the 30% reduction in property tax on owner-occupied dwellings, and the changes made by the Behr Act in the method of calculating the maximum annual increase in ad valorem property tax rates, will have on future tax allocation increases. Insofar as the act becomes operative and its overall impact reduces or limits current or future available tax allocations, the security of the bonds would be adversely affected.

In addition, an initiative constitutional amendment, commonly called the "Jarvis Initiaitve", will be submitted to the voters at the June 6, 1978 statewide election. The office of the Attorney General of the State of California has provided the following summary of the initiative:

> "TAX LIMITATION – INITIATIVE CONSTITUTIONAL AMENDMENT. Limits ad valorem taxes on real property to 1% of value except to pay indebtedness previously approved by the voters. Establishes 1975/76 assessed valuation base for property tax purposes. Limits annual increases in value. Provides for reassessment after sale, transfer, or construction. Requires ⅔ vote of Legislature to enact change in state taxes designed to increase revenues. Prohibits imposition by state of new ad valorem, sales, or transaction taxes on real property. Authorizes imposition of special taxes by local government (except on real property) by ⅔ vote of qualified electors. Financial Impact: Commencing with fiscal year beginning July 1, 1978, would result in annual losses of local government property tax revenues (approximately $7 billion in 1978/79 fiscal year), reduction in annual state costs (approximately $600 million in 1978/79 fiscal year), and restriction on future ability of local governments to finance capital construction by sale of general obligation bonds."

The initiative does not set forth what law is to be used to apportion the 1% tax amount overlapping taxing jurisdictions, and no formula for such apportionment has been proposed. If approved, the initiative will have significant impact on the taxing powers of local government and, because of the lack of enabling legislation, will not permit an early assessment of the impact on any one agency.

The agency cannot predict whether the Jarvis Initiative will be approved by the voters of the state, or, if approved, whether the validity of the initiative will be challenged in the courts, or, if so challenged, whether the initiative will be upheld, in whole or in part. However, if the measure were to be approved by the voters and upheld by the courts, tax rates of the various public entities which levy taxes in the project area would be substantially reduced, and future increases in the assessed valuation of property in the project area would be limited, thus reducing the amount of the tax allocations otherwise available to the agency and adversely affecting the security of the bonds.

See "The Bonds – Proposed Constitutional Amendment and Related Legislation" on pages 7-9 of this Official Statement for a more complete discussion of the above.

Tax Rates, Levies & Delinquencies

Table 9 presents components of a representative tax rate, made up of the various rates of all taxing agencies within the project area. The county accounts for nearly 30% of the total tax rate on all property, while various educational purposes make up over 50% of the total.

The Merced Irrigation District levies a $6.50 tax per $100 assessed valuation on land only. According to the district's general manager, the district assesses property at approximately 17-18% of full market value. Taxes are due by December 20 and June 20 in equal installments.

Table 10 presents the city's tax rate for the past five years and the components of the 1977/78 city tax rate. The city tax rate has remained at $1.86 for the past three years. The current tax rate allocates $1.20 to the general fund, while nearly 20% of taxes levied are used for retirement contributions. Maximum tax rates permitted by the city charter are $2.00 for the general fund, $.10 for planning, and $.20 for parks and recreation. The charter provides that the retirement fund shall be maintained to meet obligations without limit as to rate.

Table 11 presents a history of taxes levied, collected and amounts delinquent over the past five years. During this period, the city has experienced an average annual delinquency rate of 1.62%.

TABLE 9
REPRESENTATIVE 1977/78
TAX RATES*

Taxing Entity	*Tax Rate*
City of Merced	$ 1.86
County of Merced	3.15
Elementary school district	2.69
High school district	1.93
Community college district	0.71
Other education	0.67
Vector control district	0.12
Cemetery district	0.09
Total Tax Rate On All Property	$11.22
Irrigation district (land only)	$6.50†

* Tax rate for tax code areas 5-09, 5-11, 5-12, and 5-13 which constitute over 90% of the assessed value of the project area.

† Merced Irrigation District levies a $6.50 tax per $100 assessed valuation on land only. The district conducts its own assessment, which approximates 17-18% of full market value.

Source: Merced County Auditor-Controller; General Manager, Merced Irrigation District.

TABLE 10
CITY TAX RATES AND
1977/78 TAX RATE
COMPONENTS

TAX RATES

Fiscal Year	*Tax Rate*
1973/74	$ 1.80
1974/75	1.80
1975/76	1.86
1976/77	1.86
1977/78	1.86

1977/78 TAX RATE COMPONENTS

Fund	*Tax Rate*
General	$1.20
Planning	.10
Recreation and Parks	.20
Employee Retirement	.36
Total	$1.86

Source: City of Merced Finance Officer.

TABLE 11
CITY OF MERCED
SECURED TAX LEVIES AND DELINQUENCIES

Year Ending June 30	*Secured Tax Levy*	*Amount Collected*	*Refunds and Adjustments*	*Amount Delinquent*	*Percent Delinquent*
1973	$ 830,633	$ 811,823	$ 5,598	$13,212	1.59%
1974	813,641	793,106	6,531	14,004	1.72
1975	1,002,657	977,706	7,026	17,925	1.79
1976	1,274,121	1,185,463	66,953	21,705	1.70
1977	1,425,084	1,311,217	93,067	20,800	1.46

Source: Merced County Auditor-Controller.

City Revenue and Expenses

Table 12 presents a history of revenues and expenses for the city as reported on a cash basis. Figures in Table 12 are based on figures presented in the State Controller's reports presenting financial transactions of the city for 1972/73 through 1975/76; on figures presented in the city's report to the State Controller for 1976/77, and on figures presented in the city's adopted annual budget for 1977/78.

According to Table 12, the city's main source of tax income over the past five years has been sales and use taxes, which make up approximately one-quarter of total city revenues, followed closely by property tax income. General government expenditures made up nearly one-half of total city expenditures for 1976/77. According to the adopted budget, general government expenditures are expected to decrease nearly 10% during the current fiscal year, due to capital improvements funded in 1976/77 not expected in 1977/78.

Annual audits have been performed on the city's financial statements for 1972/73 through 1976/77. The financial statements accompanying the auditor's reports did not include a report of general fixed assets, which is being developed for inclusion in the 1978/79 financial statements. The auditors' opinions regarding the financial statements for 1972/73 through 1976/77 were qualified regarding the absence of this report. In addition, the auditors' report accompanying the 1975/76 financial statements did not include an opinion on the financial statements due to insufficient accounting records.

TABLE 12
CITY OF MERCED REVENUE AND EXPENDITURES*

	1972/73	*1973/74*	*1974/75*	*1975/76*	*1976/77*	*Adopted 1977/78 Budget*
REVENUE						
Property tax†	$1,050,502	$1,112,193	$1,311,594	$1,622,085	$1,732,831	$1,757,955
Sales and use tax‡	1,106,946	1,206,784	1,412,304	1,733,622	1,917,948	1,825,255
Transient lodging tax	53,758	59,721	68,012	81,074	94,873	85,000
Franchise tax	34,140	43,,483	51,980	71,586	78,075	75,000
Business license tax	111,312	120,051	125,642	134,642	143,077	217,750
Property transfer tax	9,957	12,669	11,642	13,849	25,333	15,000
Other taxes	—	20,650	19,510	42,500	97,100	30,000
Licenses and permits	95,322	97,616	109,962	156,131	210,214	171,500
Fines and penalties	126,380	137,991	136,350	182,885	171,050	166,500
Use of money and property	130,861	272,069	361,992	390,394	291,798	113,750
Other agency income§	1,436,302	1,844,769	1,470,302	2,210,322	2,958,938	4,121,999
Current services¶	38,711	60,079	46,312	93,375	235,626	231,250
Other revenues¶	152,740	43,234	112,647	231,644	330,473	215,000
Total Revenue	$4,346,931	$5,031,309	$5,238,249	$6,964,109	$8,287,336	$9,025,959
EXPENDITURES						
General government	$1,136,760	$1,385,141	$1,818,902	$2,508,206	$3,458,268	$3,153,251
Public safety	1,464,471	1,697,246	1,888,385	2,083,515	2,137,816	2,284,186
Public works¶	969,796	823,514	725,598	946,264	862,115	804,982
Parks and recreation	471,211	640,773	741,693	603,569	618,004	638,524
Total Expenditures	$4,042,238	$4,546,674	$5,174,578	$6,141,554	$7,076,203	$6,880,943

* Table 12 verified by city's finance officer.

† Includes state reimbursed income due to homeowners' and business inventory exemptions.

‡ Includes transportation tax.

§ Includes revenues derived from state gasoline taxes and Federal Revenue Sharing.

¶ Excludes revenue and expenses associated with the sewer service, water service and refuse service enterprise funds.

Sources: 1972/73, 1973/74, 1974/75 and 1975/76 Annual Reports of Financial Transactions Concerning Cities published by the State Controller; 1975/76 Financial Statements accompanying Auditors' Report dated December 23, 1976; 1976/77 Annual Report of Financial Transactions to State Controller, submitted by the city dated September 28, 1977; 1977/78 Adopted Annual Budget reformatted by City Finance Officer into Controller's Report format.

The city requested that the 1975/76 auditors prepare a management report to recommend methods to improve the accounting procedures of the city. A sequel to this report, requested by the city, dated March 8, 1978, identifies corrective measures taken by the city and areas requiring further attention. The city is continuing to implement procedures that will revise the financial reporting system as recommended by the auditors.

The auditor's opinion accompanying the 1976/77 financial statements stated that inasmuch as the city's policy is to prepare its financial statements on the basis of cash receipts and disbursements, the financial statements do not present the financial position and results of operations in conformity with generally accepted accounting procedures. The city is presently incorporating the modified accrual method of accounting into its accounting procedures.

Overlapping Bonded Debt

Table 13 presents a statement of estimated overlapping bonded debt for the city. The city has no direct debt but does have a contingent liability regarding assessment bonds issued under the Improvement Bond Act of 1915, in the event of default in the payment of individual assessments. Outstanding 1915 Act Bonds total $4,936,512.

TABLE 13
CITY OF MERCED
STATEMENT OF ESTIMATED OVERLAPPING BONDED DEBT*

Estimated 1977 population	31,700
1977/78 assessed valuation	$102,833,590†
Estimated market value	$447,000,000‡

Entity	*Percent Applicable*	*Debt Applicable May 17, 1978*
Merced Union High School District	33.034 %	$ 21,142
Merced City School District (1954-55 Issues)	76.911-77.082	30,806
Merced City School District (Subsequent Issues)	75.666	969,281
McSwain Union School District	2.655	2,655
Weaver School District	22.111	47,096
Total Estimated Overlapping Bonded Debt		$1,070,980

	Ratio to Assessed Valuation	*Ratio to Estimated Market Value*	*Per Capita*
Assessed valuation	—	—	$3,244
Direct bonded debt	—	—	—
Overlapping bonded debt	1.04%	.24%	34

City of Merced 1915 Act Bonds§	$4,936,512
State School Building Aid Repayable as of June 30, 1977:	$1,157,463

* Compiled by California Municipal Statistics, Incorporated.
† Before homeowners' and business inventory exemptions and after the redevelopment agency increment deduction ($8,639,100).
‡ The State Board of Equalization reports that the 1977/78 Merced County assessed valuation averages 22.9% of market value with public utilities assessed at 25% of market value.
§ The city has a contingent liability regarding assessment bonds issued under the Improvement Bond Act of 1915 in the event of default in the payment of individual assessments.

(Right) *Rheem Manufacturing is located in the Southern Pacific Industrial Park (a portion of the redevelopment project area) and produces shipping barrels for various products including the spaghetti sauce processed by Ragu' Foods, Inc.*

(Below) *Ragu' Foods, Inc., also located in the Southern Pacific Industrial Park, generates approximately 25% of the company's total spaghetti sauce production, which ranks number one in spaghetti sauce sales nationwide.*

THE CITY AND VICINITY

The City of Merced is located in the northern portion of the San Joaquin Valley, approximately 135 miles southeast of San Francisco and 275 miles northwest of Los Angeles. The City, with an estimated 1977 population of 31,700, encompasses 9.5 square miles at an elevation of 169 feet above sea level. Merced is the largest city in Merced County and is the county seat.

The Merced area has warm, dry summers and mild winters. Temperatures range from a maximum of 100 degrees and an average of 80 degrees in summer months to a minimum of 28 degrees and an average of 64 degrees in winter. The area receives approximately 12 inches of rainfall annually.

Historically, the city's economy has been primarily based on agricultural production and directly and indirectly related industries. In recent years the city has broadened its economic base by attracting many non-agriculturally oriented industries. The city is the major trading and commercial center of the county.

Population Characteristics

Table 14 presents population growth trends for the city and county of Merced and the San Joaquin Valley. The valley is made up of ten counties including Fresno, Kern, Kings, Madera, Mariposa, Merced, San Joaquin, Stanislaus and Tulare. Merced County has grown more rapidly than any other county in the valley. The population in the county and city has more than doubled since 1950 and the valley has grown approximately 60% during the same period. The county's general plan projects a population of 52,000 for the city by 1990, an increase of 64%, compared to a 33% increase projected for the county.

According to copyright data presented in the 1977 Survey of Buying Power prepared by Sales and Marketing Management, the median age of county residents as of December, 1976, was 25.9 years compared to 29.5 years for state residents. The median effective buying income per household in the county for 1975 was $11,573, compared to $14,299 for the state.

TABLE 14
POPULATION STATISTICS

Year	*City of Merced*	*Merced County*	*San Joaquin Valley*
1950	15,278	69,780	1,140,735
1960	20,068	90,466	1,419,574
1970	22,670	104,629	1,632,916
1977	31,700	121,400	1,821,425
1990	52,000	160,900	n. a.

Source: 1950, 1960, 1970 figures from U.S. Census Bureau; 1977 figures estimated by California State Department of Finance; 1990 figures cited in Merced General Plan.

Employment and Economic Development

Economic development of the Merced area, historically dependent upon agriculturally-oriented industries and augmented by a major military installation, has been expanded to include a diversity of light industrial manufacturers.

In 1977, agriculturally-related activities provided employment for nearly 35% of those working in the county, while the largest non-agricultural wage and salary industry was state and local government jobs with over 18% of those working. Table 15 presents a detailed accounting of employment by industry in the county. The civilian labor force has expanded at a slightly faster rate than the available job pool over the past five years as indicated by a rising unemployment rate. The State Economic Development Department expects the unemployment rate to decline to 9.6% in 1978.

The area's largest industrial employer is the local plant of California Canners and Growers (Cal Can), with over 1,200 persons employed during the canning season. Cal Can was formed in 1958 and simultaneously took over Felice & Perrelli, the then operators of the canning plant in Merced. Since that time, Cal Can has grown to include seven canning plants located in Northern California and one plant in Wisconsin. The company packages about 12% of the fruit and vegetable produce in the nation, with total gross annual sales approximating $230 million. Cal Can is the largest canning cooperative in the nation, with over 1,000 growers in California and Wisconsin who wholly-own the company.

The Merced plant is used to package peaches with a combined total of over 40,000 tons of Yellow Cling and Alberta peaches packaged annually. This currently represents about 30% of the company's peach volume. The company is transferring production from one of the other plants to the Merced location and anticipates plant expansion activities in the future.

Cal Can is financing a land application system to dispose of its wastewater that will cost approximately $1 million.

Ragu' Foods, Inc. is another employer of local significance, with over 350 persons employed during the food processing season. Ragu', a division of Chesebrough-Ponds, Inc., located its tomato processing plant in Merced in 1972. The plant produces tomato paste, Italian cooking sauce, and spaghetti sauce. The company ranks number one in spaghetti sauce sales nationwide, with the Merced plant producing approximately 25% of the company's total. The principal production period is July through October during which the plant is operating on a 24-hour schedule.

TABLE 15
MERCED COUNTY WAGE AND SALARY EMPLOYMENT

Industry	*1972*	*1976*	*1977*
AGRICULTURAL WAGE AND SALARY			
Agricultural production	7,300	8,800	8,775
Agricultural services	1,575	1,850	2,025
Total Agriculture	8,875	10,650	10,800
NONAGRICULTURAL WAGE AND SALARY			
Construction and mining	1,100	1,075	1,225
Manufacturing—food processing	2,350	3,250	3,475
Manufacturing—other	1,175	1,700	1,850
Transportation and public utilities	1,375	1,800	1,900
Wholesale trade	1,075	1,850	1,950
Retail trade	4,975	5,950	6,200
Finance, insurance and real estate	1,250	1,500	1,525
Services	2,975	3,850	4,000
Government—federal	1,125	1,225	1,200
Government—state and local	6,750	7,725	7,800
Total Nonagricultural	24,150	29,925	31,125
Total Wage and Salary Employment	33,025	40,575	41,925
Total civilian labor force	44,725	*	57,475
Total unemployment	3,775	*	6,925
Unemployment rate	8.4%	*	12.1%

* Computations not available based on new benchmark monthly period.
Source: California State Employment Development Department.

Table 16 shows that 15 of the 23 major industrial employers in the county are located in or nearby the city of Merced. The major employers continue to be agriculturally-related and are complemented by other light industries manufacturing a diverse range of products including paper goods, electrical supplies, hardware, home furnishings, and textiles.

The city and chamber of commerce will continue to encourage this diversification. Various factors enhancing the city's attractiveness as a manufacturing center include adequacy of utilities and water, access to all of the state's major market areas, excellent transportation facilities, available land at suitable prices, and an adequate labor force.

The city of Merced has over 1,400 acres zoned for light and heavy industry with approximately 70% available for lease or sale in parcel sizes ranging from 1 to 180 acres. Included in the acreage are three industrial parks. The Merced Airport Industrial Park was established in 1972 adjacent to the Merced Municipal Airport. The park is currently occupied by ten industries. Approximately 240 of the park's 360 acres are available for development in parcel sizes beginning at one acre.

Two other significant industrial parks are located adjacent to railroads. The Southern Pacific Industrial Park opened in April, 1977 with four tenants including Ragu' Industries. The park has an additional 185 acres available for development. The Santa Fe Industrial Park is scheduled for completion in December, 1978 and will ultimately provide 250 acres zoned for light industry.

Castle Air Force Base is located approximately seven miles from the city and is a major factor in the city's economy. The base employs approximately 300 civilian personnel and has a military component of 6,200 persons. The payroll for personnel stationed at the base was approximately $66.5 million in 1977 and military purchases in the Merced area are estimated at over $70 million annually. In addition to two tanker training units and one tactical fighter unit stationed at Castle, a new operational tanker unit has recently been established resulting in a more diversified mission for the base. The base's information services office indicates that no major changes in staffing or operations at Castle are anticipated at this time.

TABLE 16
MERCED COUNTY MAJOR INDUSTRIAL EMPLOYERS, 1977

Firm	*Services or Products*	*Location*
Employee Range Over 1000		
California Canners and Growers*	Fruits and vegetables	Merced
Employee Range 501-1000		
Davis Canning Company	Peaches and tomatoes	Atwater
Employee Range 101-500		
Avoset Food Corporation	Dairy products	Gustine
Ballico Fruit Company*	Fruit farming	Ballico
Bianchi and Sons Packing Company	Produce packing	Merced
Central California Tomato Growers*	Tomatoes	Merced
Control Data Corporation	Printed business forms	Merced
Del Monte Corporation*	Agriculture	Merced
Ferrero Electric, Inc.	Electrical supplies	Merced
Giampaoli and Marchini	Tomatoes and bell peppers	Le Grand
Keller Ladder Western Inc.	Aluminum ladders	Merced
Kendall Company	Health care products	Merced
Maracay Mill	Tufted carpets	Merced
Merced Sun Star	Newspaper publishers	Merced
Ragu' Foods, Inc.	Tomato sauces	Merced
Rheem Manufacturing	Shipping barrels	Merced
Robertson Factories, Inc.	Draperies	Merced
Rogers Brothers of California	Onions	Livingston
Santa Clara Packing Company	Fruit packers	Planada
Stribling Nurseries, Inc.	Nursery stock	Merced
Tubbs Cordage Company	Spun yarns	Dos Palos
Tuttle Farms, Inc.	Tomatoes	Merced
Wood Fruit Company, Inc.	Peaches	Atwater

* Seasonal peak.
Source: Merced City Chamber of Commerce.

Agriculture

The rich soil of the San Joaquin Valley and a mild year-round climate contribute to Merced's agriculturally-oriented economy. Nearly 40% of all land in the county is dedicated to agricultural production of over 90 commercial crops. The annual dollar volume of agricultural production in the county has nearly doubled during the last five years, as shown in Table 18. In 1977, livestock and poultry and their by-products constituted nearly 45% of the total production. Field crops made up the next largest category with nearly 22% of total production. Major crops include cotton, hay, and sugar beets.

Commercial Activity

The City of Merced is the commercial and financial center for a large segment of the central valley region, and it is estimated that the city commercial areas serve a population in excess of 130,000. Several special improvement districts have been formed in accordance with the city's master plan to improve the city's commercial areas, and an active urban development program is now under-way to upgrade much of the downtown area as described in the section headed "The Project". Ample offstreet parking is provided by the city and a major street lighting program has been accomplished. Several shopping centers are located in the city limits, including the Westgate Shopping Center, College Green, and the Merced Mall. As a result of these facilities, sales tax revenues to the city have increased significantly.

According to the California State Board of Equalization, retail sales have increased nearly 64% during the last five years while total taxable transactions have nearly doubled during the same period. Table 17 shows that total taxable transactions in the City of Merced for 1976 totaled $167,840,000, which represented nearly fifty percent of the total volume of taxable transactions in all of Merced County for the same twelve-month period.

TABLE 17
CITY OF MERCED
TAXABLE TRANSACTIONS AND SALES PERMITS

Year	*Retail Sales*	*Total Taxable Transactions*	*Sales Permits*
1972	$ 89,777,000	$102,430,000	658
1973	103,404,000	113,371,000	682
1974	115,279,000	129,854,000	695
1975	128,661,000	143,806,000	723
1976	146,848,000	167,840,000	732
Through third quarter, 1977	120,825,000	138,540,000	775

Source: California State Board of Equalization.

TABLE 18
DOLLAR VOLUME OF AGRICULTURAL PRODUCTION IN MERCED COUNTY

	1973	*1974*	*1975*	*1976*	*1977*
Field crops	$ 78,936,600	$112,474,600	$101,968,000	$123,160,800	$111,041,500
Livestock and poultry	83,386,000	68,155,300	103,548,000	119,051,800	119,294,800
Livestock and poultry products	72,020,000	75,985,600	89,559,000	99,302,600	104,095,500
Fruit and nut crops	69,085,560	58,862,420	53,097,000	74,971,100	100,481,500
Vegetable crops	32,669,000	35,254,800	47,704,000	40,089,000	60,142,000
Nursery products	5,720,000	4,056,000	5,023,000	4,302,000	6,430,000
Seed crops	842,000	1,335,400	2,972,000	3,343,000	3,683,000
Apiary products	1,595,400	1,575,500	1,085,000	1,493,200	1,600,900
Total	$344,254,560	$357,699,620	$404,956,000	$465,713,500	$506,769,200

Source: Merced County Department of Agriculture annual reports.

Building Activity

Table 20 presents a six-year summary of new construction valuations in the City of Merced. Total valuations have reached nearly $100 million during this period averaging over $16 million per year. Average annual residential valuation has outpaced corresponding commercial and industrial valuation by nearly three times. Although single family unit valuation consistently exceeds multi-family unit valuation, in 1977, 475 multi-family units were built compared to 331 single family units.

Educational Facilities

The Merced area has educational facilities providing instruction through the second year of college. The Merced City School District operates one pre-school, eight elementary, and three junior high schools serving approximately 6,200 students. The Merced Union High School District has approximately 6,700 students attending three regular high schools and one continuation school. This district encompasses all of north-eastern Merced County with a total population of over 60,000 persons. The city also has two parochial elementary and one parochial high school.

Merced College is a public, tuition-free institution that provides a variety of education opportunities including transfer programs and vocational training. Since its opening in 1963, Merced College has grown in enrollment from approximately 500 students to over 7,000. The faculty is composed of 127 full-time day instructors and 163 part-time day and evening instructors.

TABLE 19
CITY OF MERCED
TAXABLE TRANSACTIONS THROUGH THIRD QUARTER, 1977

Type	*Number of Permits*	*Taxable Transactions*
RETAIL STORES		
Apparel stores	39	$ 6,059,000
General merchandise stores	19	20,559,000
Drug stores	10	6,805,000
Food stores	33	6,822,000
Packaged liquor stores	9	2,571,000
Eating and drinking establishments	94	12,459,000
Home furnishings and appliances	35	5,982,000
Building materials and farm implements	20	9,942,000
Auto dealers and auto suppliers	40	28,824,000
Service stations	44	13,041,000
Other retail stores	98	7,761,000
Total Retail Stores	441	$120,825,000
All Other Outlets	334	$ 17,715,000
Total	775	$138,540,000

Source: State Board of Equalization, annual summaries of *Trade Outlets and Taxable Sales in California.*

TABLE 20
CITY OF MERCED
NEW CONSTRUCTION VALUATIONS

Type of Construction	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
Single family	$ 6,031,000	$ 6,573,000	$5,150,000	$ 6,738,000	$12,886,000	$10,713,000
Multi-family	3,081,000	2,236,000	359,000	1,571,000	4,559,000	6,329,000
Other residential	749,000	881,000	913,000	1,108,000	1,124,000	1,186,000
Total Residential	$ 9,861,000	$ 9,690,000	$6,422,000	$ 9,417,000	$18,569,000	$18,228,000
Commercial	$ 1,799,000	$ 617,000	$1,256,000	$ 1,259,000	$ 3,981,000	$ 2,483,000
Industrial	766,000	1,274,000	475,000	350,000	810,000	371,000
Other commercial and industrial	971,000	1,370,000	1,158,000	2,585,000	3,548,000	979,000
Total Commercial and Industrial	$ 3,536,000	$ 3,261,000	$2,889,000	$ 4,194,000	$ 8,339,000	$ 3,833,000
Total Valuation	$13,397,000	$12,951,000	$9,311,000	$13,611,000	$26,908,000	$22,061,000
NUMBER OF DWELLING UNITS						
Single family	269	313	232	229	430	331
Multi-family	294	237	37	124	346	475
Total Dwelling Units	563	550	269	353	776	806

Source: Security Pacific National Bank, *California Construction Trends.*

Utilities

Electric power to the city is provided by the Pacific Gas and Electric Company from a variety of hydroelectric and steam generating plants. Natural gas is also provided by Pacific Gas and Electric Company from fields in Texas and New Mexico.

The city owns and operates its own water pumping and distribution system, which serves an estimated 35,000 customers located in and about the city. The city acquired the system in 1973 from Foremost-McKesson Property Company using proceeds of $3,800,000 City of Merced 1973 Water Revenue Bonds. The city has covenanted to maintain rates at a sufficient level to yield annual net operating revenue to at least 1.25 times annual debt service. The water bill is a part of and due at the same time as the city's sewer and refuse charges.

The system utilizes groundwater solely as a water source. Since acquisition, one well has been added to the system bringing the total to 13 wells. Each well has an average pumping capacity ranging from 1,900 to 2,500 gallons per minute. In addition to 125 horsepower electrical pumps installed at 110 feet below the ground surface in each well, four of the wells are equipped with gas engine driven pumps for emergency service. During summer months, 7 to 8 pumps are used during peak hours while 3-4 are used during corresponding hours during winter months.

During 1977 the system produced approximately 4.5 billion gallons of water, or approximately 355 gallons per capita per day. The recent California drought had no measurable impact on the operation of the system. Production in 1977, however, was 16% below 1976 production due to voluntary customer water conservation practices.

The city recently issued $3,250,000 sewer revenue bonds to finance extensive modifications to the existing 15 million gallons per day (mgd) sewage treatment plant and to develop a land application system designed to dispose of wastewater from canning and food processing industries. The sewer project is being developed to meet current state and federal water quality standards.

The new plant will have a design capacity of 10 mgd and will provide a higher quality treatment to all existing domestic, commercial and light industrial customers. The food processing industries presently on-line, will be taken off the new system and will use land application disposal systems. The new plant will have a capacity for future growth of 3 mgd. The entire project is expected to be operational in 1980/81.

Community Services

Police and fire protection are provided by the city. The police department is staffed by 70 full-time employees and augmented by 14 auxiliary reserves. The fire department is staffed with 52 full-time firemen and 3 reservists and equipped with 15 fire vehicles. The city has a class 3 fire insurance classification.

Library service in the city is provided by the Merced County library system. Nineteen branches are strategically located in the county offering a total of over 150,000 volumes. Three libraries are located in the city, including the main branch.

Residents in the Merced area have available two fully-equipped, acute-care hospitals with a combined bed capacity of 269. The hospitals are staffed by a total of 55 physicians. The city has five convalescent care facilities with a total of 419 beds.

Transportation

The City of Merced is traversed by Highway 99, a major north-south freeway; Highway 152, which provides access to the Monterey Peninsula; and Highway 140, which connects Merced to Yosemite National Park, located approximately 80 miles east of Merced. The city is approximately 45 minutes east of Interstate 5, the major north-south arterial for the West Coast. The city operates its own municipal airport which is served by United Airlines, offering daily service to San Francisco and Los Angeles. Chartered and private air facilities are also available at the airport.

Bus service is available from Greyhound and Continental Trailways, with transportation to Yosemite National Park provided by the Yosemite Transportation System. The city operates its own "dial-a-bus" system which is a demand responsive transit system available to all city residents. Ten buses with a carrying capacity of 12-14 persons each are available to transport residents to desired locations in the city for a 25 cent charge (reduced for children and senior citizens). In 1976/77 operating expenses were met with fare revenue and income apportioned by the state from gasoline sales taxes.

Rail service is provided by the Southern Pacific and Santa Fe Railroads, and overnight trucking is available to all major California cities.

Recreational Opportunities

The city offers ten parks and two municipal swimming pools to its residents. Lake Yosemite is located about nine miles from the city while spectacular Yosemite Valley is located about 80 miles east of Merced.

REDEVELOPMENT AGENCY
OF THE
CITY OF MERCED

Resolution No. 251

Authorizing the Issuance of
$8,500,000 Principal Amount of
Merced Redevelopment Project Number 2
1978 Tax Allocation Bonds

Adopted May 1, 1978

TABLE OF CONTENTS*

* The table of contents is provided for the convenience of the reader and was not formally adopted by the Agency as part of Resolution No. 251.

RESOLUTION NO. 251

AUTHORIZING THE ISSUANCE OF $8,500,000 PRINCIPAL AMOUNT OF MERCED REDEVELOPMENT PROJECT NUMBER 2 1978 TAX ALLOCATION BONDS

WHEREAS, the Redevelopment Agency of the City of Merced (the "Agency") is a public body, corporate and politic, duly created, established and authorized to transact business and exercise powers under and pursuant to the provisions of the Community Redevelopment Law of the State of California, including power to issue bonds for any of its corporate purposes; and

WHEREAS, all the requirements of law have been complied with in the adoption of a redevelopment plan for the Merced Redevelopment Project Number 2, in the City of Merced, California; and

WHEREAS, the Agency has determined to issue bonds to aid in the financing of said redevelopment plan as in this Resolution provided;

NOW, THEREFORE, BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF MERCED, AS FOLLOWS:

ARTICLE I

AUTHORIZATION OF BONDS; DEFINITIONS

SECTION 1.01. *Authorization.* The Agency has reviewed all proceedings heretofore taken and has found, as a result of such review, and hereby finds and determines that all conditions, things and acts required by law to exist, happen or be performed precedent to and in connection with the issuance of the Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and the Agency is now duly empowered, pursuant to each and every requirement of law, to issue the Bonds in the manner and form provided in this Resolution.

SECTION 1.02. *Definitions.* Unless the context otherwise requires, the terms defined in this Section 1.02 shall, for all purposes of this Resolution and of any resolution supplemental hereto, and of any certificate, opinion, report or other document herein mentioned, have the meanings herein specified.

Agency

"Agency" means the Redevelopment Agency of the City of Merced, a public body, corporate and politic, established under the Law.

Annual Interest

"Annual Interest" means the amount of interest which, on the date of such computation, will become due on the Bonds (and any Additional Bonds) on the next two succeeding interest payment dates.

Articles, Sections

All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Resolution, and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Resolution as a whole and not to any particular Article, Section or subdivision hereof.

Assumed Annual Debt Service

"Assumed Annual Debt Service" means an amount which would be required in each year ending May 1 to pay the interest on and principal of all the Bonds (and any Additional Bonds) outstanding as of the date of computation, assuming that a portion of each series of such outstanding Bonds were retired annually until the final

maturity of each such series, in such manner that the debt service so calculated is approximately equal in each year until the final maturity of all such outstanding series of Bonds. In making such calculation, there shall be excluded from the outstanding principal amount of any series of Bonds that amount of such Bonds which could be redeemed on the next redemption date under the provisions of this Resolution by applying the amount of money then on deposit at the date of calculation in the Prior Redemption Account established in Section 4.03.

Bonds, Additional Bonds

"Bonds" means the Redevelopment Agency of the City of Merced, Merced Redevelopment Project Number 2 1978 Tax Allocation Bonds.

"Additional Bonds" means bonds of the Agency issued in accordance with Section 3.04.

Federal Securities

"Federal Securities" means United States Treasury notes, bonds, bills or certificates of indebtedness or those for which the faith and credit of the United States are pledged for the payment of principal and interest; obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board, the Tennessee Valley Authority, or any obligations, participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; all as and to the extent that such securities are eligible for the legal investment of Agency funds.

Financial Newspaper or Journal

"Financial newspaper or journal" means *The Wall Street Journal* or *The Daily Bond Buyer* or any other newspaper or journal devoted to financial news and selected by the Fiscal Agent, whose decision shall be final and conclusive.

Fiscal Agent

"Fiscal Agent" means the Fiscal Agent appointed by the Agency and acting as an independent trustee with the duties and powers herein provided, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in Section 6.01.

Fiscal Year

"Fiscal Year" means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both inclusive, or any other twelve-month period hereafter selected and designated by the Agency as its fiscal year.

Holder, Bondholder

"Holder" or "Bondholder" means any person who shall be the bearer of any outstanding Bond (or any Additional Bond) registered to bearer or not registered, or the registered owner of any outstanding Bond (or any Additional Bond) which shall at the time be registered other than to bearer.

Independent Certified Public Accountant

"Independent Certified Public Accountant" means any accountant or firm of such accountants duly licensed or registered or entitled to practice and practicing as such under the laws of the State of California, appointed by the Agency, and who, or each of whom:

(1) is in fact independent, and not under domination of the Agency;

(2) does not have any substantial interest, direct or indirect, with the Agency; and

(3) is not connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make annual or other similar audits of any of the books of the Agency.

Independent Financial Consultant

"Independent Financial Consultant" means any financial consultant or firm of such consultants appointed by the Agency with the written concurrence of the Fiscal Agent, and who, or each of whom:

(1) is in fact independent and not under domination of the Agency;

(2) does not have any substantial interest, direct or indirect, with the Agency; and

(3) is not connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make reports to the Agency.

Independent Real Estate Consultant

"Independent Real Estate Consultant" means any real estate consultant or firm of such consultants appointed by the Agency, and who, or each of whom:

(1) is in fact independent and not under domination of the Agency;

(2) does not have any substantial interest, direct or indirect, with the Agency; and

(3) is not connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make reports to the Agency.

Independent Redevelopment Consultant

"Independent Redevelopment Consultant" means any redevelopment consultant or firm of such consultants appointed by the Agency, and who, or each of whom:

(1) is in fact independent and not under domination of the Agency;

(2) does not have any substantial interest, direct or indirect, with the Agency; and

(3) is not connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make reports to the Agency.

Law

"Law" means the Community Redevelopment Law of the State of California, constituting Part 1 of Division 24 of the Health and Safety Code of the State of California, and the acts amendatory thereof and supplemental thereto.

Maximum Assumed Annual Debt Service

"Maximum Assumed Annual Debt Service" means the maximum amount of Assumed Annual Debt Service for all the Bonds and Additional Bonds outstanding at the time of calculation.

Minimum Reserve

"Minimum Reserve" means the sum required to be maintained in the Reserve Account, being an amount equal to Annual Interest.

Paying Agents

The term "Paying Agents" means Manufacturers Hanover Trust Company at its principal office in New York, New York and The Northern Trust Company at its principal office in Chicago, Illinois and United California Bank at its principal office in Los Angeles, California, appointed by the Agency in Section 6.02, and the successors and assigns of any of them, or any other corporation or association which may at any time be substituted in the place of any of them, as provided in Section 6.02.

Project, Merced Redevelopment Project Number 2

"Project" or "Merced Redevelopment Project Number 2" means the undertaking of the Agency pursuant to the Redevelopment Plan and the Law for the redevelopment of the Project Area and for other improvements either within or without the Project Area to the extent such improvements are of benefit to the Project Area.

Project Area

"Project Area" means the project area as described in the Redevelopment Plan.

Redevelopment Plan

"Redevelopment Plan" means that certain Redevelopment Plan for the Merced Redevelopment Project Number 2 entitled "Merced Redevelopment Project Number 2 Redevelopment Plan" adopted and approved as the Official Redevelopment Plan of the Project by Ordinance No. 1118 adopted by the City Council of the City of Merced, State of California, on August 5, 1974, as amended by Ordinance No. 1200, adopted by said City Council on September 6, 1977, and Ordinance No. 1210, adopted by said City Council on February 6, 1978, together with any further amendments thereof or supplements thereto.

Report

"Report" means a Report in writing signed by an Independent Financial Consultant, an Independent Real Estate Consultant or an Independent Redevelopment Consultant and including—

(1) a statement that the person or firm making or giving such Report has read the pertinent provisions of this Resolution to which such Report relates;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the Report is based;

(3) a statement that, in the opinion of such person or firm, sufficient examination or investigation was made as is necessary to enable said consultant to express an informed opinion with respect to the subject matter referred to in the Report.

Resolution

"Resolution" means this Resolution adopted by the Agency under the Law.

Supplemental Resolution

"Supplemental Resolution" or "supplemental resolution" means any resolution then in full force and effect which has been duly adopted by the Agency under the Law, or any act supplementary thereto or amendatory thereof, at a meeting of the Agency duly convened and held, at which a quorum was present and acted thereon, amendatory of or supplemental to this Resolution; but only if and to the extent that such Supplemental Resolution is specifically authorized hereunder.

Tax Revenues

"Tax Revenues" means all taxes allocated to, and paid into the Special Fund of the Agency pursuant to Article 6 of Chapter 6 of the Law and Section 19 of Article XIII of the Constitution of the State of California, and as provided in the Redevelopment Plan, including all payments and reimbursements, if any, to the Agency specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations, for fiscal year 1978/79 and thereafter.

SECTION 1.03. *Equal Security.* In consideration of the acceptance of the Bonds by those who shall hold the same from time to time, this Resolution shall be deemed to be and shall constitute a contract between the Agency and the Holders from time to time of the Bonds and Additional Bonds and interest coupons appertaining thereto, and the covenants and agreements herein set forth to be performed on behalf of the Agency shall be for the equal and proportionate benefit, security and protection of all holders of the Bonds and Additional Bonds and interest coupons without preference, priority or distinction as to security or otherwise of any of the Bonds and Additional Bonds or interest coupons over any of the others by reason of the number or date thereof or the time of sale, execution or delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or herein.

ARTICLE II

The Bonds

Section 2.01. *Authorization.* Bonds in the aggregate principal amount of eight million five hundred thousand dollars ($8,500,000) are hereby authorized to be issued by the Agency under and subject to the terms of this Resolution and the Constitution and laws of the State of California. This Resolution constitutes a continuing agreement with the Holders of all the Bonds and Additional Bonds issued or to be issued hereunder and then outstanding to secure the full and final payment of principal and premiums, if any, and the interest on all Bonds and Additional Bonds which may from time to time be executed and delivered hereunder, subject to the covenants, agreements, provisions and conditions herein contained. The Bonds are designated as the "Redevelopment Agency of the City of Merced, Merced Redevelopment Project Number 2 1978 Tax Allocation Bonds."

Section 2.02. *Terms of Bonds.* The Bonds shall be dated May 1, 1978, and shall mature and become payable on May 1, 2008. The Bonds may be issued as coupon Bonds in the denomination of $5,000 or as fully registered Bonds without coupons in the denomination of $5,000 or any authorized multiple thereof. The fully registered Bonds, the coupon Bonds and the interest coupons appertaining thereto, shall be substantially in the forms hereinafter set forth.

The Bonds shall bear interest at the rate designated by the Agency at the time of the sale of the Bonds, but not to exceed eight per cent (8%) per annum, payable on May 1, 1979 and on May 1 and November 1 in each year thereafter. Both the principal of and interest on the Bonds shall be payable in lawful money of the United States of America at the principal office of the Fiscal Agent in San Francisco, California, or at the option of the Holder, at the principal office of Manufacturers Hanover Trust Company in New York, New York, or at the principal office of The Northern Trust Company in Chicago, Illinois, or at the principal office of United California Bank in Los Angeles, California, the Paying Agents of the Agency.

The coupon Bonds shall be numbered A1 to A1700, inclusive, and shall bear interest from May 1, 1978. The interest coupons attached to the coupon Bonds shall be numbered in consecutive numerical order, and each such coupon shall represent six months' interest on the Bond to which it is attached, except that the first such coupon shall represent twelve months' interest on the Bonds. Payment of interest on the coupon Bonds due on or before maturity of such Bonds shall be made only upon presentation and surrender of the coupons representing such interest as the same respectively fall due.

The fully registered Bonds shall bear interest from the interest payment date next preceding the date of registration thereof unless such date of registration is an interest payment date, in which event they shall bear interest from such date, or unless such date of registration is prior to the first interest payment date, in which event they shall bear interest from May 1, 1978; provided, however, that if, at the time of registration of any fully registered Bond, interest is in default on outstanding Bonds, such fully registered Bond shall bear interest from the interest payment date to which interest has previously been paid or made available for payment on the outstanding Bonds. Payment of the interest on any fully registered Bond shall be made to the person appearing on the Bond registration books of the Fiscal Agent as the registered owner thereof, such interest to be paid by check or draft mailed to the registered owner at his address as it appears on such registration books or at such address as he may have filed with the Fiscal Agent for that purpose.

Section 2.03. *Redemption.* The Bonds shall be subject to redemption prior to their stated maturity at the option of the Agency, from any source of available funds, as a whole, or in part by lot, on any interest payment date on or after May 1, 1988, at the following redemption prices (computed upon the principal amount of Bonds called for redemption) together with accrued interest to the date of redemption:

103 % if redeemed on May 1 or November 1, 1988,
102½% if redeemed on May 1 or November 1, 1989,
102 % if redeemed on May 1 or November 1, 1990,
101½% if redeemed on May 1 or November 1, 1991,
101 % if redeemed on May 1 or November 1, 1992,
100½% if redeemed on May 1 or November 1, 1993,
100 % if redeemed thereafter and prior to maturity.

Any Additional Bonds issued pursuant to Section 3.04 of this Resolution may be made subject to redemption prior to maturity, as a whole or in part, at such time or times, and upon payment of the principal amount thereof and accrued interest thereon plus such premium or premiums, if any, as may be determined by the Agency at the time such Additional Bonds are authorized and as shall be set forth in the Supplemental Resolution providing for the issuance thereof. Such Supplemental Resolution shall provide that in the event that less than all of said Additional Bonds outstanding issued pursuant to Section 3.04 of this Resolution are to be redeemed at any one time, such Additional Bonds redeemed shall be in the proportion that the principal amount of outstanding Additional Bonds bears to the total principal amount of all the then outstanding Bonds and Additional Bonds.

The Fiscal Agent shall cause notice of any redemption to be published once not less than thirty nor more than ninety days prior to the date fixed for redemption in a financial newspaper or journal, printed in the English language and customarily published on each business day, of general circulation in San Francisco, California, and in a similar newspaper or journal of general circulation in New York, New York. Such notice shall state the redemption date and the redemption price and shall designate the serial numbers of the Bonds or Additional Bonds to be redeemd by giving the individual number of each such Bond or by stating that all such Bonds between two stated numbers, both inclusive, have been called for redemption, and shall require that such Bonds be then surrendered with all interest coupons maturing on or subsequent to the redemption date (or if so stated in the notice, with all interest coupons maturing subsequent to, but not on the redemption date, provided that the interest coupon maturing on the redemption date is presented for payment in the normal manner and that the redemption price shall not in such event include accrued interest) at the office of the Fiscal Agent for redemption at the said redemption price, giving notice also that further interest on such Bonds will not accrue after the redemption date.

A similar notice shall be mailed by the Fiscal Agent to the respective registered owners of any such Bonds designated for redemption, at least thirty but not more than ninety days prior to the redemption date, at their addresses appearing on the registration books in the office of the Fiscal Agent; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice shall not affect the validity of the proceedings for the redemption of such Bonds.

After the date fixed for redemption, if notice of such redemption shall have been duly published and funds available for the payment of the principal of and interest (and premium, if any) on the such Bonds so called for redemption shall have been duly provided, such Bonds so called shall cease to be entitled to any benefit under this Resolution other than the right to receive payment of the redemption price, and no interest shall accrue thereon on or after the redemption date specified in such notice.

Whenever Bonds are called for redemption pursuant to this Section 2.03, the Fiscal Agent shall redeem a proportionate amount of all Bonds and Additional Bonds then outstanding and eligible for redemption. Whenever any such Bonds are to be selected for redemption by lot, the Fiscal Agent shall determine in any manner deemed by it to be fair, which determination shall be final and not subject to challenge, the serial numbers of such Bonds to be redeemed, and shall notify the Agency thereof.

All Bonds and Additional Bonds redeemed pursuant to the provisions of this Section and the appurtenant coupons, if any, and all such Bonds purchased by the Fiscal Agent pursuant to Section 4.03(4) and the appurtenant coupons, if any, shall be cancelled and shall be surrendered to the Agency.

SECTION 2.04. *Form of Bonds.* The coupon Bonds, their interest coupons to be attached thereto, the fully registered Bonds and the form of Fiscal Agent's certificate of authentication and registration, corresponding

coupon Bond endorsement, and assignment to appear thereon, shall be substantially in the following forms, respectively, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Resolution:

[FORM OF COUPON BOND]

No. ____ $5,000

UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF MERCED

REDEVELOPMENT AGENCY OF THE CITY OF MERCED
MERCED REDEVELOPMENT PROJECT NUMBER 2
1978 TAX ALLOCATION BOND

The Redevelopment Agency of the City of Merced, a public body, corporate and politic, duly organized and existing under and by virtue of the laws of the State of California (the "Agency"), for value received, hereby promises to pay to the bearer hereof the principal sum of Five Thousand Dollars ($5,000) on May 1, 2008 (subject to any right of prior redemption hereinafter expressly reserved), together with interest on such principal sum from the date hereof until payment of such principal sum in full, at the rate of __ per cent (__%) per annum, payable on May 1, 1979 and semiannually on May 1 and November 1 in each year thereafter, but only, in the case of interest due on or before maturity, upon presentation and surrender, and according to the tenor, of the respective interest coupons hereto annexed as they severally mature. Both the principal of and interest on this Bond are payable in lawful money of the United States of America at the principal office of United California Bank, the Fiscal Agent of the Agency, in San Francisco, California, or at the option of the holder, at the principal office of Manufacturers Hanover Trust Company in New York, New York, or at the principal office of The Northern Trust Company in Chicago, Illinois, or at the principal office of United California Bank in Los Angeles, California, the Paying Agents of the Agency, or of any successor to such Fiscal Agent or Paying Agents.

This Bond is one of a duly authorized issue of Redevelopment Agency of the City of Merced, Merced Redevelopment Project Number 2 1978 Tax Allocation Bonds of the Agency (the "Bonds"), limited in aggregate principal amount to Eight Million Five Hundred Thousand Dollars ($8,500,000) and consists or may consist of varying denominations, numbers, maturities, interest rates, redemption and other provisions, all issued and to be issued pursuant to the Constitution and laws of the State of California, including the Community Redevelopment Law (being Part 1 of Division 24 of the Health and Safety Code of the State of California) and the acts amendatory thereof and supplemental thereto, and pursuant to a resolution (the "Resolution") adopted by the Agency on May 1, 1978. All of the Bonds are equally and ratably secured in accordance with the terms and conditions of the Resolution, to which reference is hereby made for a specific description of the security therein provided and of the nature, extent and manner of enforcement of such security, and a statement of the rights of the bearers and registered owners of the Bonds, to all of the provisions of which the bearer of this Bond, by his acceptance of this Bond, consents and agrees.

The Bonds are issued by the Agency to aid in financing and refinancing the redevelopment of the Merced Redevelopment Project Number 2, a duly designated redevelopment project area, in Merced, California, and are special obligations of the Agency secured by a first and exclusive pledge of the Tax Revenues (as such term is defined in the Resolution), all as more particularly set forth in the Resolution.

The Agency hereby covenants and warrants that, for the payment of this Bond together with all other Bonds issued under the Resolution and interest thereon when due, there has been created and will

be maintained in said office of the Fiscal Agent, in San Francisco, California, a special fund (herein called the "Merced Redevelopment Project Number 2 Special Fund") into which all the Tax Revenues (as that term is defined in the Resolution) shall be deposited to pay the principal of the Bonds when due, and to pay interest on the Bonds when due, and as an irrevocable charge the Agency has allocated said Tax Revenues solely to the payment of the Bonds (and any Additional Bonds authorized by the Resolution), except for other authorized uses as provided in the Resolution, and will pay promptly when due the principal of and interest on this Bond and all other Bonds of this issue out of said Merced Redevelopment Project Number 2 Special Fund, all in accordance with the terms hereof and the provisions set forth in the Resolution. Additional Bonds payable from the Tax Revenues may be issued on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Resolution.

The Bonds shall be subject to redemption prior to their stated maturity at the option of the Agency, from any source of available funds, as a whole, or in part by lot, on any interest payment date on or after May 1, 1988, at the following redemption prices (computed upon the principal amount of Bonds called for redemption) together with accrued interest to the date of redemption:

103 % if redeemed on May 1 or November 1, 1988,
102½ % if redeemed on May 1 or November 1, 1989,
102 % if redeemed on May 1 or November 1, 1990,
101½ % if redeemed on May 1 or November 1, 1991,
101 % if redeemed on May 1 or November 1, 1992,
100½ % if redeemed on May 1 or November 1, 1993,
100 % if redeemed thereafter and prior to maturity.

The Bonds are issuable as coupon Bonds in the denomination of $5,000 and as fully registered Bonds without coupons in denominations of $5,000 and any authorized multiple thereof. Subject to the limitations and conditions and upon payment of the charges, if any, as provided in the Resolution, fully registered Bonds may be exchanged for a like aggregate principal amount of coupon Bonds or for a like aggregate principal amount of fully registered Bonds of other authorized denominations, and coupon Bonds may be exchanged for a like aggregate principal amount of fully registered Bonds of authorized denominations.

This Bond and the coupons appertaining hereto are negotiable and transferable by delivery, and the Agency and the Fiscal Agent and any Paying Agent may treat the bearer hereof, or the bearer of any coupon appertaining hereto, as the absolute owner hereof or of such coupon, as the case may be, for all purposes, whether or not this Bond or such coupon shall be overdue, and the Agency and the Fiscal Agent and any Paying Agent shall not be affected by any notice to the contrary.

The rights and obligations of the Agency and of the holders and registered owners of the Bonds may be modified or amended at any time in the manner, to the extent and upon the terms provided in the Resolution, but no such modification or amendment may (1) extend the maturity hereof or reduce the interest rate hereon, or otherwise alter or impair the obligation of the Agency to pay the principal hereof, or interest hereon, or any premium payable on the redemption hereof, at the time and place and at the rate and in the currency provided herein, without the express consent of the holder of this Bond, or (2) permit the creation by the Agency of any mortgage, pledge or lien upon the Tax Revenues (hereinbefore referred to) superior to or on a parity with the pledge and lien herein and in the Resolution created for the benefit of the Bonds, or reduce the percentage of Bonds required for the affirmative vote or written consent to an amendment or modification, or (3) modify any of the rights or obligations of the Fiscal Agent without its written assent thereto; all as more fully set forth in the Resolution.

This Bond is not a debt of the City of Merced, the State of California, or any of its political subdivisions, and neither said City, said State, nor any of its political subdivisions is liable hereon, nor in any event shall this Bond be payable out of any funds or properties other than those of the Agency. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

It is hereby certified that all of the conditions, acts and things required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law.

In Witness Whereof, the Redevelopment Agency of the City of Merced has caused this Bond to be executed in its name and on its behalf by its Chairman and its Secretary, and the seal of the Agency to be reproduced hereon, and coupons for said interest, bearing the signature of its Secretary, to be attached hereto, and this Bond to be dated May 1, 1978.

Redevelopment Agency of the City of Merced

By ________________________________

Chairman

By ________________________________

Secretary

[Seal]

[FORM OF INTEREST COUPON]

Coupon No. __________

The Redevelopment Agency of the City of Merced, on ____________________ subject to any right of prior redemption reserved in the Bond herein mentioned) will pay (but only out of the Tax Revenues referred to in said Bond) to bearer at the principal office of United California Bank, in San Francisco, California, or at the option of the holder, at the principal office of Manufacturers Hanover Trust Company in New York, New York, or at the principal office of The Northern Trust Company in Chicago, Illinois, or at the principal office of United California Bank in Los Angeles, California, upon surrender hereof, the sum set forth hereon in lawful money of the United States of America, being interest then due on its Redevelopment Agency of the City of Merced, Merced Redevelopment Project Number 2 1978 Tax Allocation Bond, dated May 1, 1978, No. ______________

____

Secretary of the
Redevelopment Agency of the City of Merced

[FORM OF FULLY REGISTERED BOND]

No. R ______ $______

UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF MERCED

REDEVELOPMENT AGENCY OF THE CITY OF MERCED
MERCED REDEVELOPMENT PROJECT NUMBER 2
1978 TAX ALLOCATION BOND

The Redevelopment Agency of the City of Merced, a public body, corporate and politic, duly organized and existing under and by virtue of the laws of the State of California (the "Agency"), for value received, hereby promises to pay to ______________________________ or registered assigns, the principal sum of ______________________________ Dollars ($__________) on May 1, 2008 (subject to any right of prior redemption hereinafter expressly reserved); and to pay interest thereon from the interest payment date next preceding the date of registration of this Bond (unless this Bond is registered on an interest payment date, in which event it shall bear interest from such date, or unless this Bond is registered prior to May 1, 1979, in which event it shall bear interest from May 1, 1978) until payment of such principal sum in full at the rate of ____% per annum, payable on May 1, 1979 and semiannually on May 1 and November 1 in each year thereafter. Both the principal of and interest on this Bond are payable in lawful money of the United States of America at the principal office of United California Bank, the Fiscal Agent of the Agency, in San Francisco, California, or of any successor to such Fiscal Agent.

This Bond is one of a duly authorized issue of Redevelopment Agency of the City of Merced, Merced Redevelopment Project Number 2 1978 Tax Allocation Bonds of the Agency (the "Bonds"), limited in aggregate principal amount of Eight Million Five Hundred Thousand Dollars ($8,500,000) and consists or may consist of varying denominations, numbers, maturities, interest rates, redemption and other provisions, all issued and to be issued pursuant to the Constitution and laws of the State of California, including the Community Redevelopment Law (being Part 1 of Division 24 of the Health and Safety Code of the State of California) and the acts amendatory thereof and supplemental thereto, and pursuant to a resolution (the "Resolution") adopted by the Agency on May 1, 1978. All of the Bonds are equally and ratably secured in accordance with the terms and conditions of the Resolution, to which reference is hereby made for a specific description of the security therein provided and of the nature, extent and manner of enforcement of such security, and a statement of the rights of the bearers and registered owners of the Bonds, to all of the provisions of which the registered owner of this Bond by his acceptance of this Bond, consents and agrees.

The Bonds are issued by the Agency to aid in financing and refinancing the redevelopment of the Merced Redevelopment Project Number 2, a duly designated redevelopment project area, in Merced, California, and are special obligations of the Agency, secured by a first and exclusive pledge of the Tax Revenues (as such term is defined in the Resolution), all as more particularly set forth in the Resolution.

The Agency hereby covenants and warrants that, for the payment of this Bond together with all other Bonds issued under the Resolution and interest thereon when due, there has been created and will be maintained in said office of the Fiscal Agent in San Francisco, California, a special fund (herein called the "Merced Redevelopment Project Number 2 Special Fund") into which all the Tax Revenues as that term is defined in the Resolution) shall be deposited to pay the principal of the Bonds when due, and to pay interest on the Bonds when due, and as an irrevocable charge the Agency has allocated said Tax Revenues solely to the payment of the Bonds (and any Additional Bonds authorized by the Resolution), except for other authorized uses as provided in the Resolution, and will pay promptly when due

the principal of and interest on this Bond and all other Bonds of this issue out of said Merced Redevelopment Project Number 2 Special Fund, all in accordance with the terms hereof and the provisions set forth in the Resolution. Additional Bonds payable from the Tax Revenues may be issued on a parity with the Bonds of this authorized issue, but only subject to the conditions and limitations contained in the Resolution.

The Bonds shall be subject to redemption prior to their stated maturity at the option of the Agency, from any source of available funds, as a whole, or in part by lot, on any interest payment date on or after May 1, 1988, at the following redemption prices (computed upon the principal amount of Bonds called for redemption) together with accrued interest to the date of redemption:

103 % if redeemed on May 1 or November 1, 1988,
102½ % if redeemed on May 1 or November 1, 1989,
102 % if redeemed on May 1 or November 1, 1990,
101½ % if redeemed on May 1 or November 1, 1991,
101 % if redeemed on May 1 or November 1, 1992,
100½ % if redeemed on May 1 or November 1, 1993,
100 % if redeemed thereafter and prior to maturity.

The Bonds are issuable as coupon Bonds in the denomination of $5,000 and as fully registered Bonds without coupons in denominations of $5,000 and any authorized multiple thereof. Subject to the limitations and conditions and upon payment of the charges, if any, as provided in the Resolution, fully registered Bonds may be exchanged for a like aggregate principal amount of coupon Bonds or for a like aggregate principal amount of fully registered Bonds of other authorized denominations, and coupon Bonds may be exchanged for a like aggregate principal amount of fully registered Bonds of authorized denominations.

This Bond is transferable by the registered owner hereof, in person or by his attorney duly authorized in writing, at said office of the Fiscal Agent, but only in the manner, subject to the limitations and upon payment of the charges provided in the Resolution, and upon surrender and cancellation of this Bond. Upon such transfer a new fully registered Bond or Bonds without coupons, of authorized denomination or denominations, for the same aggregate principal amount will be issued to the transferee in exchange herefor.

The Agency and the Fiscal Agent may treat the registered owner hereof as the absolute owner hereof for all purposes, and the Agency and the Fiscal Agent shall not be affected by any notice to the contrary.

The rights and obligations of the Agency and of the holders and registered owners of the Bonds may be modified or amended at any time in the manner, to the extent and upon the terms provided in the Resolution, but no such modification or amendment may (1) extend the maturity hereof or reduce the interest rate hereon, or otherwise alter or impair the obligation of the Agency to pay the principal hereof, or interest hereon, or any premium payable on the redemption hereof, at the time and place and at the rate and in the currency provided herein, without the express consent of the holder of this Bond, or (2) permit the creation by the Agency of any mortgage, pledge or lien upon the Tax Revenues (hereinbefore referred to) superior to or on a parity with the pledge and lien herein and in the Resolution created for the benefit of the Bonds, or reduce the percentage of Bonds required for the affirmative vote or written consent to an amendment or modification, or (3) modify any of the rights or obligations of the Fiscal Agent without its written assent thereto; all as more fully set forth in the Resolution.

This Bond is not a debt of the City of Merced, the State of California, or any of its political subdivisions, and neither said City, said State, nor any of its political subdivisions is liable hereon, nor in any event shall this Bond be payable out of any funds or properties other than those of the Agency. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

It is hereby certified that all of the conditions, acts and things required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law.

This Bond shall not be entitled to any benefit under the Resolution, or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed shall have been signed by the Fiscal Agent.

In Witness Whereof, the Redevelopment Agency of the City of Merced has caused this Bond to be executed in its name and on its behalf by its Chairman and its Secretary, and the seal of the Agency to be reproduced hereon, all as of May 1, 1978.

Redevelopment Agency of the City of Merced

By ____________________
Chairman

By ____________________
Secretary

[Seal]

[form of fiscal agent's certificate of authentication and registration to appear on registered bonds]

This is one of the Bonds described in the within-mentioned Resolution and authenticated and registered this _____ day of __________, _______.

United California Bank
as Fiscal Agent

By ____________________
Authorized Officer

[form of corresponding coupon bond endorsement]

Notice: No writing below except by the Fiscal Agent.

This registered Bond is issued in lieu of or in exchange for Coupon Bonds(s) of this issue numbered _______ in the denominations of $5,000 each not contemporaneously outstanding aggregating the face value hereof; and Coupon Bond(s) of this issue aggregating the face value hereof [and bearing the above serial number(s) which has (have) been reserved for such Coupon Bond(s)] will be issued in exchange for this Registered Bond and upon surrender and cancellation thereof and upon payment of charges, all as provided in the within-mentioned Resolution.

[FORM OF ASSIGNMENT]

For value received the undersigned do(es) hereby sell, assign and transfer unto ______________ ______________ the within-mentioned Registered Bond and hereby irrevocably constitute and appoint ______________________________ attorney, to transfer the same on the books of the Fiscal Agent with full power of substitution in the premises

____

Dated: ______________________________

Note: The signature(s) to this Assignment must correspond with the name(s) as written on the face of the within Registered Bond in every particular, without alteration or enlargement or any change whatsoever.

SECTION 2.05. *Execution of Bonds.* The Bonds shall be executed on behalf of the Agency by the signature of its Chairman and the signature of its Secretary who are in office on the date of the adoption of this Resolution or at any time thereafter, and the seal of the Agency shall be impressed, imprinted or reproduced by facsimile thereon. Either of such signatures may be affixed by facsimile thereof, provided that one of such signatures shall be manually signed on each Bond. The interest coupons attached to the Bonds shall bear the facsimile of the signature of said Secretary. If any officer whose signature appears on any Bond or coupon ceases to be such officer before delivery of the Bonds to the purchaser, such signature, either on the Bonds or the coupons, or on both, shall nevertheless be as effective as if the officer had remained in office until the delivery of the Bonds to the purchaser. Any Bond or coupon may be signed and attested on behalf of the Agency by such persons as at the actual date of the execution of such Bond or coupon shall be the proper officers of the Agency although at the nominal date of such Bond or coupon any such person shall not have been such officer of the Agency.

Only such of the fully registered Bonds as shall bear thereon a certificate of authentication and registration in the form hereinbefore recited, executed and dated by the Fiscal Agent, shall be valid or obligatory for any purpose or entitled to the benefits of this Resolution, and such certificate of the Fiscal Agent shall be conclusive evidence that the Bonds so registered have been duly authenticated, registered and delivered hereunder and are entitled to the benfits of this Resolution.

SECTION 2.06. *Transfer of Coupon Bonds.* All coupon Bonds shall be negotiable and transferable by delivery. The Agency and the Fiscal Agent and any Paying Agent may treat the bearer of any coupon Bond, whether or not such Bond shall be overdue, and the bearer of any coupon, whether or not such coupon shall be overdue, as the absolute owner of such Bond or coupon for the purpose of receiving payment thereof and for all other purposes whatsoever, and the Agency and the Fiscal Agent and any Paying Agent shall not be affected by any notice to the contrary.

SECTION 2.07. *Transfer of Fully Registered Bonds.* Any fully registered Bond without coupons may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.09, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such fully registered Bond at the principal office of the Fiscal Agent in San Francisco, California, for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Fiscal Agent, duly executed.

Whenever any Bond shall be issued pursuant to this Resolution as a fully registered Bond without coupons, there shall be reserved by the Fiscal Agent unissued an aggregate principal amount of coupon Bonds, of the same maturity and of the denomination of $5,000, equal to the principal amount of such registered Bond, and in such case the serial number or numbers of the coupon Bond or Bonds so reserved, together with an appropriate statement as to such reservation, shall be endorsed on such registered Bond.

Whenever any fully registered Bond or Bonds without coupons shall be surrendered for transfer, the Agency shall execute and the Fiscal Agent shall deliver a new fully registered Bond or Bonds, for like aggregate principal amount, which shall have endorsed thereon the same coupon Bond serial number or numbers, if any, so reserved.

No transfers of fully registered Bonds shall be required to be made during the 15 days next preceding each interest payment date.

SECTION 2.08. *Exchange of Bonds.* Fully registered Bonds without coupons may be exchanged at the principal office of the Fiscal Agent in San Francisco, California, for a like aggregate principal amount of coupon Bonds (or for a like aggregate principal amount of fully registered Bonds of other authorized denominations) of the same maturity, and coupon Bonds may be exchanged at said office of the Fiscal Agent for a like aggregate principal amount of fully registered Bonds of authorized denominations of the same maturity. All coupon Bonds surrendered for exchange and delivered in exchange shall have attached thereto all unmatured coupons appertaining thereto (together with any matured coupons in default appertaining thereto). The Fiscal Agent shall preserve coupon Bonds surrendered to it for exchange, and may subsequently reissue said coupon Bonds in exchange for a like aggregate principal amount of fully registered Bonds, as hereinabove provided, after detaching all matured interest coupons appertaining thereto. The Agency may charge a sum not exceeding $5.00 for each new Bond issued upon any exchange (except in the case of any exchange of temporary Bonds for definitive Bonds and except in the case of the first exchange of any definitive Bond in the form in which it is originally issued) and the Fiscal Agent shall require the payment by the Bondholder requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

No exchange of Bonds shall be required to be made during the 15 days next preceding each interest payment date.

SECTION 2.09. *Bond Register.* The Fiscal Agent will keep or cause to be kept, at its principal office in San Francisco, California, sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection by the Agency; and, upon presentation for such purpose, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as hereinbefore provided.

SECTION 2.10. *Temporary Bonds.* The Bonds may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Agency, shall be without coupons and may contain such reference to any of the provisions of this Resolution as may be appropriate. Every temporary Bond shall be executed by the Agency upon the same conditions and in substantially the same manner as the definitive Bonds. If the Agency issues temporary Bonds it will execute and furnish definitive Bonds without delay, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the principal office of the Fiscal Agent in San Francisco, California, and the Fiscal Agent shall deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive coupon Bonds or definitive fully registered Bonds of authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits pursuant to this Resolution as definitive Bonds authenticated and delivered hereunder.

SECTION 2.11. *Bonds Mutilated, Lost, Destroyed or Stolen.* If any Bond shall become mutilated, the Agency, at the expense of the owner of said Bond, shall execute, and the Fiscal Agent shall thereupon deliver, a

new Bond of like tenor and number (having annexed appropriate coupons corresponding to those, if any, annexed to the mutilated Bond) in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated together with any unpaid coupons thereto appertaining. Every mutilated Bond so surrendered to the Fiscal Agent shall be cancelled by it and delivered to, or upon the order of, the Agency. If any Bond shall be lost, destroyed, or stolen, evidence of such loss, destruction or theft may be submitted to the Agency and the Fiscal Agent and, if such evidence be satisfactory to both and indemnity satisfactory to them shall be given, the Agency, at the expense of the owner, shall execute, and the Fiscal Agent shall thereupon deliver, a new Bond of like tenor and number (having annexed appropriate coupons corresponding to those, if any, annexed to the lost, destroyed or stolen Bond) in lieu of and in substitution for the Bond so lost, destroyed or stolen. The Agency may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the Agency and the Fiscal Agent in the premises. Any Bond or coupon issued under the provisions of this Section in lieu of any Bond or coupon alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Agency whether or not the Bond or coupon so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Resolution with all other Bonds and coupons issued pursuant to this Resolution.

ARTICLE III

Issue of Bonds; Additional Bonds

Section 3.01. *Issuance of Bonds.* At any time after the adoption of this Resolution the Agency may sell and deliver Bonds in the aggregate principal amount of eight million five hundred thousand dollars ($8,500,000).

Section 3.02. *Application of Proceeds of Sale of Bonds.* Upon the receipt of payment for any of the Bonds when the same shall have been sold by the Agency, the proceeds thereof shall be paid to the Fiscal Agent, who shall forthwith transfer or set aside and deposit the proceeds received from such sale in the following respective funds or accounts:

(1) The Fiscal Agent shall set aside in the respective accounts established pursuant to Section 4.03 the following sums:

(a) In the Interest Account, a sum equal to the interest becoming due on the Bonds to and including May 1, 1980; and

(b) In the Reserve Account, a sum equal to the Minimum Reserve.

(2) The Fiscal Agent shall transfer to the Treasurer of the Agency and the Treasurer of the Agency shall set aside the remainder of such proceeds in the Redevelopment Fund established pursuant to Section 3.03.

Section 3.03. *Merced Redevelopment Project Number 2 Redevelopment Fund.* There is hereby created a fund to be known as the "Merced Redevelopment Project Number 2 Redevelopment Fund" (herein called the "Redevelopment Fund"), which the Agency hereby covenants and agrees to cause to be maintained and which shall be held in trust by the Treasurer of the Agency. The moneys in such fund shall be used in the manner provided by law solely for the purpose of aiding in financing the Project. Such Treasurer shall pay moneys from the Redevelopment Fund upon receipt of warrants drawn thereon and signed by at least two duly authorized officers or members of the Agency. The Agency warrants that no withdrawal shall be made from the Redevelopment Fund for any purpose not authorized by law. All or any moneys in excess of that amount required to complete the Project may also be transferred from the Redevelopment Fund to the Special Fund.

SECTION 3.04 *Issuance of Additional Bonds.* In addition to the Bonds, the Agency may, by Supplemental Resolution, establish one or more additional series of bonds (the "Additional Bonds") on a parity with all then outstanding Bonds to finance or refinance the Project in such principal amount as shall be determined by the Agency, subject to the following specific conditions which are hereby made conditions precedent to the delivery of any such Additional Bonds issued under this Section:

(1) The Agency shall be in compliance with all covenents set forth in this Resolution.

(2) Tax Revenues received or to be received by the Agency based upon the most recent assessed valuation of taxable property in the Project Area, furnished by the appropriate officer of the County of Merced, plus, at the option of the Agency, the item hereinafter designated (i), are at least equal to one and four-tenths (1.4) times the Maximum Assumed Annual Debt Service on all Bonds and Additional Bonds which will be outstanding following the issuance of such Additional Bonds.

(i) The item which may be added for the purpose of applying the above restriction is an allowance for estimated annual additional Tax Revenues to be received by the Agency within any of the three Fiscal Years following the date the computation is made due to expected increases in assessed valuation of taxable property in the Project Area resulting from construction in progress on the date such computation is made, all as shown by a Report of an Independent Redevelopment Consultant employed by the Agency. As used herein, "construction in progress" means: (aa) construction for which a building permit has been issued and there is evidence of construction activity on the site, and/or (bb) construction as to which a binding contract therefor, with a 100% faithful performance bond, has been executed between the Agency and a developer deemed financially responsible by such Independent Consultant.

(3) The Agency shall have received from an Independent Financial Consultant a certificate stating that the requirements of subsection (2) of this Section 3.04 have been complied with.

(4) There shall have been no material change in the status of the Redevelopment Project or other event which would be likely to result in the diminution of Tax Revenues in the present fiscal year by more than five per cent (5%), as compared to the Tax Revenues from the next preceding fiscal year, as certified by an Independent Redevelopment Consultant to the Agency, and filed with the Fiscal Agent.

(5) The Supplemental Resolution providing for the issuance of such Additional Bonds under this Section shall provide that:

(i) Interest on said Additional Bonds shall (except, at the option of the Agency, in the first year) be payable on May 1 and November 1 in each year of the term of such Additional Bonds;

(ii) The principal of such Additional Bonds shall be payable on May 1 in any year in which principal is payable, provided that the Additional Bonds may not mature or be called prior to May 1, 1988, nor may the final maturity of such Additional Bonds be earlier than May 1, 2008; and

(iii) There shall be deposited from proceeds of such Additional Bonds in the Reserve Account an amount sufficient to bring the Reserve Account equal to the Minimum Reserve, or such greater amount as may be required by any Supplemental Resolution.

(6) The Agency shall have received all required approvals or rulings from any governmental authority having jurisdiction over such Additional Bonds or their terms, including, without limitation, compliance with all requirements of the Department of the Treasury of the United States.

SECTION 3.05. *Validity of Bonds.* The validity of the authorization and issuance of the Bonds shall not be dependent upon the completion of the Project or upon the performance by any person of his obligation with respect to the Project.

SECTION 3.06. *Merced Redevelopment Project Number 2 Trust Account.* There is hereby created a fund to be known as the "Merced Redevelopment Project Number 2 Trust Account" (herein called the "Trust

Account"), which the Agency hereby covenants and agrees to cause to be maintained as herein provided and which shall be held in trust by the Treasurer of the Agency. On the date of the receipt by the Agency of the proceeds of the sale of the Bonds, the Agency shall and hereby does transfer to and deposit in the Trust Account, the sum of eight hundred forty-two thousand dollars ($842,000).

The moneys in the Trust Account shall not be disbursed prior to July 1, 1980. If on July 1, 1980, the Treasurer determines, and states in a certificate filed with the Fiscal Agent, that Tax Revenues for the 1979/80 fiscal year were equal to or exceeded nine hundred thousand dollars ($900,000), the moneys in the Trust Account shall thereafter be used for any lawful purpose of the Agency upon receipt of warrants drawn thereon signed by two duly authorized officers of the Agency. If on July 1, 1980, the Treasurer determines that Tax Revenues for the 1979/80 fiscal year were less than nine hundred thousand dollars ($900,000), the Treasurer shall continue to maintain the Trust Account without permitting any disbursements therefrom, until one of the two following events shall occur:

(i) if on any July 1, the Treasurer determines, and states in a certificate filed with the Fiscal Agent, that the Tax Revenues in the preceding fiscal year were equal to or exceeded nine hundred thousand dollars ($900,000), then the moneys in the Trust Account shall thereafter be used for any lawful purpose of the Agency upon receipt of warrants drawn thereon signed by two duly authorized officers of the Agency; or

(ii) if the Treasurer receives a certificate from the Fiscal Agent stating that there are insufficient funds in the Special Fund, including any moneys expected to be received by the Fiscal Agent, to make the next payment of interest on or principal of the Bonds (and any Additional Bonds) coming due at the next interest or principal payment date, then the moneys contained in the Trust Account shall, within thirty days of the receipt of such certificate, be transferred to and deposited with the Fiscal Agent to be used by the Fiscal Agent and treated in every respect as if such moneys were Tax Revenues.

ARTICLE IV

Tax Revenues; Special Fund and Accounts

Section 4.01. *Pledge of Tax Revenues.* The Bonds and any Additional Bonds issued pursuant to Section 3.04 shall be secured by a first pledge (which pledge shall be effected in the manner and to the extent hereinafter provided) of all of the Tax Revenues and all of the moneys in the Reserve Account and the Prior Redemption Account. The Tax Revenues are hereby allocated in their entirety to the payment of the principal of and interest on the Bonds and such Additional Bonds (except as provided in Section 4.03(4) below) and, until the payment in full thereof, the Tax Revenues shall be applied solely to payment of such principal and interest and to transfer to the Reserve Account for that purpose. This pledge and allocation of Tax Revenues is for the exclusive benefit of the Bonds and such Additional Bonds and shall be irrevocable until all of the Bonds and such Additional Bonds and all of their appertaining coupons have been paid and retired. The Agency will not issue any obligation or security superior to or on a parity with the Bonds authorized pursuant to Section 2.01, howsoever denominated, payable in whole or in part from the Tax Revenues (other than Additional Bonds or refunding bonds issued solely for the purpose of refunding all of the then outstanding Bonds and Additional Bonds), until all of the Bonds and Additional Bonds have been paid and retired.

Section 4.02. *Merced Redevelopment Project Number 2 Special Fund.* There is hereby created a special fund to be known as the "Merced Redevelopment Project Number 2 Special Fund (the "Special Fund"), which the Agency hereby covenants and agrees to cause to be maintained and which shall be held in trust by the Fiscal Agent. The Agency shall pay or cause to be paid to the Fiscal Agent all of the Tax Revenues, and the Agency covenants that it will, so far as permitted by law, authorize and direct, and does hereby authorize and direct, the payment of such Tax Revenues by the respective taxing agencies, as defined in Article 6 of Chapter 6 of the Law and Article XVI, Section 16 of the Constitution of the State of California, directly to the Fiscal Agent. All Tax

Revenues at any time paid into the Special Fund shall be held by the Fiscal Agent in trust for the benefit of the holders and registered owners from time to time of the Bonds and of the coupons appertaining thereto, and shall be disbursed, allocated and applied solely for the uses and purposes hereinafter in this Article IV set forth. So long as any of the Bonds are outstanding, the Agency shall not have any beneficial right or interest in the Tax Revenues, except only as in this Resolution provided and such moneys shall be used and applied by the Fiscal Agent as hereinafter set forth in this Article IV. Notwithstanding the foregoing, there shall not be deposited with the Fiscal Agent Tax Revenues in an amount in excess of an amount which, together with all funds then on deposit with the Fiscal Agent in the Special Fund, shall be sufficient to discharge the indebtedness under this Resolution as provided in Section 9.03.

SECTION 4.03. *Establishment and Maintenance of Accounts for Revenues; Use and Withdrawal of Revenues.* All Tax Revenues in the Special Fund shall be immediately set aside by the Fiscal Agent in the following respective special accounts (each of which is hereby created and each of which the Agency covenants and agrees to cause to be maintained), in the following order of priority:

(1) Interest Account,

(2) Principal Account,

(3) Reserve Account, and

(4) Prior Redemption Account.

All Tax Revenues in each of said accounts shall be held in trust by the Fiscal Agent and shall be applied, used and withdrawn only for the purposes hereinafter authorized in this Section 4.03.

(1) *Interest Account.* Commencing on April 30, 1980, and on or before April 30 of each year thereafter, the Fiscal Agent shall set aside from the Special Fund in the Interest Account (the initial payment into which is provided for in Section 3.02(1) hereof) an amount which, together with any amount contained therein, is equal to the aggregate amount of the interest becoming due and payable on the outstanding Bonds and any Additional Bonds on the next two succeeding interest payment dates. All moneys in the Interest Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of paying the interest on the Bonds and any Additional Bonds as it shall become due and payable (including accrued interest on any Bonds or Additional Bonds purchased or redeemed prior to maturity pursuant to this Resolution).

(2) *Principal Account.* Commencing on April 30, 1988, and on or before April 30 of each year thereafter, the Fiscal Agent shall set aside from the Special Fund in the Principal Account an amount which, together with any amount contained therein, is equal to the amount of principal becoming due and payable on the Bonds and Additional Bonds on the next principal payment date. All moneys in the Principal Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of paying the principal of Bonds and Additional Bonds as they shall become due and payable.

(3) *Reserve Account.* After making the foregoing deposits, the Fiscal Agent shall set aside in the Reserve Account an amount sufficient to maintain the Minimum Reserve in the Reserve Account. The Minimum Reserve may be increased by any Supplemental Resolution establishing an additional series of Bonds pursuant to Section 3.04. On May 2 of any year, the Fiscal Agent may transfer from the Reserve Account to the Prior Redemption Account any amount in excess of the Minimum Reserve as of such date.

Except as otherwise provided in this Section and in Section 6.05, all moneys in the Reserve Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of replenishing the Interest Account or Principal Account in the event of any deficiency in either of said accounts, or for the purpose of paying interest and principal on the Bonds if no other funds are available therefor, or at the time of final maturity of the Bonds and all Additional Bonds.

(4) *Prior Redemption Account.* After making the foregoing deposits, the Fiscal Agent shall set aside all remaining Tax Revenues in the Prior Redemption Account. Commencing on and after May 2,

1980 (but only if there exists as of such date a balance in the Prior Redemption Account of at least $900,000), the Fiscal Agent may apply moneys in the Prior Redemption Account to the purchase of Bonds, if available, as and when and at such prices (including brokerage and other expenses but excluding accrued interest which is payable from the Interest Account) as he may in his discretion determine except that the purchase price (excluding accrued interest) shall not exceed the principal amount of such Bonds (excluding accrued interest) plus the premium applicable on the next following redemption date. All Bonds purchased pursuant to this Section and appurtenant coupons shall be cancelled by the Fiscal Agent and delivered by the Fiscal Agent to, or upon the order of, the Agency.

On May 1, 1988 and on any November 1 and May 1 thereafter, the Fiscal Agent shall apply all moneys in the Prior Redemption Account in an amount sufficient to redeem at least $50,000 principal amount of Bonds, to the call and redemption of Bonds upon the notice and in the manner hereinabove provided. The Fiscal Agent shall give notice of all such redemption without any request therefor by the Agency.

In the event that Tax Revenues are insufficient, or are expected to be insufficient, to make the deposits required by subsections (1) through (3) of this Section 4.03, the Fiscal Agent shall make such deposits from any available moneys in the Prior Redemption Account.

Notwithstanding the foregoing, if, on any July 30 commencing July 30, 1981, (1) the Tax Revenues received in the next preceding fiscal year were equal to or in excess of one million two hundred thousand dollars ($1,200,000), and (2) there was no material change in the status of the Redevelopment Project or other event which would be likely to result in the diminution of the Tax Revenues in the present fiscal year by more than five per cent (5%), as compared to the next preceding fiscal year, as certified by an Independent Redevelopment Consultant to the Agency and filed with the Fiscal Agent, then the Fiscal Agent may, at the written request of the Agency, certifying to the facts giving rise thereto, transfer out of the Prior Redemption Account to the Agency, but only for the purpose of reimbursing the City of Merced or any public agency for advances made to or expenses incurred on behalf of the Project, any amount of Tax Revenues from the next preceding fiscal year in excess of one million two hundred thousand dollars ($1,200,000), provided such transfer occurs not later than the next succeeding June 30.

ARTICLE V

OTHER COVENANTS OF THE AGENCY

SECTION 5.01. *Punctual Payment.* The Agency will punctually pay or cause to be paid the principal and interest to become due in respect of all the Bonds (and any Additional Bonds), in strict conformity with the terms thereof and of this Resolution, and it will faithfully observe and perform all of the conditions, covenants and requirements of this Resolution and all supplemental resolutions and of the Bonds (and any Additional Bonds). Nothing herein contained shall prevent the Agency from making advances of its own moneys howsoever derived to any of the uses or purposes referred to herein.

SECTION 5.02. *Accumulation of Coupons.* In order to prevent any accumulation of coupons or claims for interest after maturity, the Agency will not, directly or indirectly, extend or consent to the extension of the time for the payment of any coupon appertaining to or claim for interest on any of the Bonds (and any Additional Bonds) and will not, directly or indirectly, be a party to or approve any such arrangements by purchasing or funding said coupons or claims for interest or in any other manner. In case any such coupon or claim for interest shall be extended or funded, whether or not with the consent of the Agency, such coupon or claim for interest so extended or funded shall not be entitled, in case of default hereunder, to the benefits of this Resolution, except subject to the prior payment in full of the principal of all the Bonds (and any Additional Bonds) then outstanding and of all coupons and claims for interest which shall not have been so extended or funded.

SECTION 5.03. *Against Encumbrances.* The Agency will not encumber, pledge or place any charge or lien upon any of the Tax Revenues superior to or on a parity with the pledge and lien herein created for the benefit of the Bonds and any Additional Bonds.

SECTION 5.04. *Management and Operation of Properties.* The Agency will manage and operate all properties owned by the Agency and comprising any part of the Project in a sound and business-like manner, and will keep such properties insured at all times in conformity with sound business practice.

SECTION 5.05. *Payment of Claims.* The Agency will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by the Agency or upon the Tax Revenues or any part thereof, or upon any funds in the hands of the Fiscal Agent or in the Trust Account, or which might impair the security of the Bonds. Nothing herein contained shall require the Agency to make any such payment so long as the Agency in good faith shall contest the validity of said claims.

SECTION 5.06. *Books and Accounts; Financial Statements.* The Agency will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Agency, in which complete and correct entries shall be made of all transactions relating to the Project and to the Tax Revenues.

The Agency will prepare and file with the Fiscal Agent annually, within one hundred twenty (120) days after the close of each Fiscal Year so long as any of the Bonds and any Additional Bonds are outstanding, complete financial statements with respect to the preceding Fiscal Year showing the Tax Revenues, all disbursements from the Tax Revenues and the financial condition of the Project, including the balances of all funds and accounts relating to the Project as of the end of such Fiscal Year, which statements shall be accompanied by a certificate or opinion in writing of an Independent Certified Public Accountant. The Agency will furnish a copy of such statements to any Bondholder upon request.

SECTION 5.07. *Protection of Security and Rights of Bondholders.* The Agency will preserve and protect the security of the Bonds and any Additional Bonds and the rights of the Bondholders, and will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any of the Bonds and any Additional Bonds by the Agency, the Bonds and any Additional Bonds and coupons appertaining thereto shall be incontestable by the Agency.

SECTION 5.08. *Payment of Taxes and Other Charges.* Subject to the provisions of Section 5.10 hereof the Agency will pay and discharge, or cause to be paid and discharged, all taxes, service charges, assessments and other governmental charges which may hereafter be lawfully imposed upon the Agency or the properties then owned by the Agency in the Project Area, or upon the revenues therefrom, when the same shall become due. Nothing herein contained shall require the Agency to make any such payment so long as the Agency in good faith shall contest the validity of said taxes, assessments or charges. The Agency will duly observe and conform with all valid requirements of any governmental authority relative to the Project or any part thereof.

SECTION 5.09 *Completion of Project.* The Agency will commence, and will continue to completion, with all practicable dispatch, the Project, and the Project will be accomplished and completed in a sound and economical manner and in conformity with the Redevelopment Plan and the Law. The Redevelopment Plan may be amended as provided in the Law, but no amendment shall be made which would substantially impair the security of the Bonds or the rights of the Bondholders.

SECTION 5.10. *Taxation of Leased Property.* Whenever any property in the Project has been redeveloped and thereafter is leased by the Agency to any person or persons or whenever the Agency leases real property in

the Project to any person or persons for redevelopment, the property shall be assessed and taxed in the same manner as privately owned property (in accordance with Section 33673 of the Health and Safety Code of the State of California), and the lease or contract shall provide (1) that the lessee shall pay taxes upon the assessed value of the entire property and not merely upon the assessed value of his or its leasehold interest, and (2) that if for any reason the taxes paid by the lessee on such property in any year during the term of the lease or contract shall be less than the taxes which would have been payable upon the assessed value of the entire property if the property were assessed and taxed in the same manner as privately owned property, the lessee shall pay such difference to the Fiscal Agent within thirty days after the taxes for such year become payable to the taxing agencies and in any event prior to the delinquency date of such taxes established by law. All such payments to the Fiscal Agent shall be treated as Tax Revenues and shall be deposited by the Fiscal Agent in the Special Fund.

SECTION 5.11. *Disposition of Property in Project Area.* (1) The Agency will not authorize the disposition of any land or real property in the Project Area to anyone which will result in such property becoming exempt from taxation because of public ownership or use or otherwise (except land or property planned for such ownership or use by the Redevelopment Plan in effect on the date of this Resolution) so that such disposition shall consist of more than ten per cent (10%) of the land area in the Project Area. If the Agency proposes to make such a disposition, it shall apply to the Fiscal Agent for approval of said proposed amendment. The Agency, with the written concurrence of the Fiscal Agent, shall thereupon appoint a reputable Independent Financial Consultant and a reputable Independent Real Estate Consultant and direct each of said consultants to report separately on the effect of said proposed disposition. If the Report of the Independent Real Estate Consultant concludes that Tax Revenues will not be diminished by the proposed disposition and if the Report of the Independent Financial Consultant concludes that the security of the Bonds and any Additional Bonds or the rights of Bondholders will not be materially impaired by said proposed disposition, the Fiscal Agent shall approve the proposed disposition. If said Reports respectively conclude that Tax Revenues will be diminished or that such security will be materially impaired by said proposed disposition, the Fiscal Agent shall either disapprove said proposed disposition, or, in its discretion and as a condition precedent to its approval of said proposed disposition, establish the requirements set forth in subsection (2) of this Section 5.11. The Agency shall have the sole and exclusive authority to appoint said consultants with the written concurrence of the Fiscal Agent. Neither the Fiscal Agent nor said consultants shall be liable in connection with the performance of their duties hereunder, except for their own negligence or willful default.

(2) If the Fiscal Agent is not required to approve said proposed disposition pursuant to subsection (1) of this Section 5.11, the Fiscal Agent may nevertheless approve said proposed disposition, provided that, as a condition precedent to said approval, the Agency shall be required to impose the following requirements on such new owner or owners:

(a) Said new owner or owners shall pay to the Fiscal Agent, so long as any of the Bonds and any Additional Bonds are outstanding, an amount equal to the amount that would have been received by the Fiscal Agent as Tax Revenues if the property were assessed and taxed in the same manner as privately owned non-exempt property; and

(b) Such payment shall be made to the Fiscal Agent within thirty (30) days after taxes for each year would become payable to the taxing agencies for non-exempt property and in any event prior to the delinquency date of such taxes established by law.

All such payments in lieu of taxes to the Fiscal Agent shall be treated as Tax Revenues and shall be deposited by the Fiscal Agent in the Special Fund.

SECTION 5.12. *Single Sum Payments in Lieu of Taxes.* As an alternative to payment to the Fiscal Agent pursuant to subsection (2)(b) of Section 5.11, the new owner or owners of property becoming exempt from taxation provided for in Section 5.11 may elect to make payment to the Fiscal Agent in a single sum equal to the amount estimated by the Fiscal Agent to be receivable from taxes on said property from the date of said payment to the maturity date of the Bonds and any Additional Bonds, less a reasonable discount value. All

such single sum payments in lieu of taxes shall be treated as Tax Revenues and shall be deposited by the Fiscal Agent in the Special Fund.

SECTION 5.13. *Eminent Domain.* The net proceeds realized by the Agency from any eminent domain proceeding will be transferred to the Fiscal Agent and deposited in the Special Fund to be treated in all respects as if such moneys were Tax Revenues.

SECTION 5.14. *Further Assurances.* The Agency will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Resolution, and for the better assuring and confirming unto the holders of the Bonds and any Additional Bonds of the rights and benefits provided in the Resolution.

ARTICLE VI

THE FISCAL AGENT AND PAYING AGENTS

SECTION 6.01. *Appointment of Fiscal Agent.* United California Bank at its principal office in San Francisco, California is hereby appointed Fiscal Agent for the Agency to act as the agent and depositary of the Agency for the purpose of receiving all moneys required to be paid to the Fiscal Agent hereunder, to allocate, use and apply the same, to hold, receive and disburse the Tax Revenues and other funds pledged or held hereunder, and otherwise to hold all the offices and perform all the functions and duties provided in this Resolution to be held and performed by the Fiscal Agent. The Fiscal Agent shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by executing and delivering to the Agency a written acceptance thereof; and by executing and delivering such acceptance, the Fiscal Agent shall be deemed to have accepted such duties and obligations, but only upon the terms and conditions set forth in this Resolution.

The Agency may remove the Fiscal Agent initially appointed, and any successor thereto, and may appoint a successor or successors thereto, but any such successor shall be a bank or trust company doing business and having an office in San Francisco, California, having a combined capital (exclusive of borrowed capital) and surplus of at least Fifty Million Dollars ($50,000,000), and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of conditions so published.

The Fiscal Agent may at any time resign by giving written notice to the Agency and by giving to the Bondholders notice by publication of such resignation, which notice shall be published at least once in a financial newspaper or journal printed in the English language and customarily published on each business day, of general circulation in San Francisco, California. Upon receiving such notice of resignation, the Agency shall promptly appoint a successor Fiscal Agent by an instrument in writing. Any resignation or removal of the Fiscal Agent and appointment of a successor Fiscal Agent shall become effective upon acceptance of appointment by the successor Fiscal Agent.

The Agency shall from time to time, on demand, subject to any agreement between the Agency and the Fiscal Agent, pay to the Fiscal Agent reasonable compensation for its services, reimburse the Fiscal Agent for all its advances and expenditures, including but not limited to advances to and fees and expenses of independent appraisers, accountants, consultants, counsel, agents and attorneys-in-law or other experts employed by it in the exercise and performance of its powers and duties hereunder, and indemnify and save the Fiscal Agent harmless against any liabilities, not arising from its own negligence or default, which it may incur in the exercise and performance of its powers and duties hereunder.

SECTION 6.02. *Appointment of Paying Agents.* The Agency hereby appoints as its Paying Agents Manufacturers Hanover Trust Company at its principal office in New York, New York, The Northern Trust Company at its principal office in Chicago, Illinois, and United California Bank at its principal office in Los Angeles, California, for the purpose of paying the principal of and interest on any of the Bonds or Additional Bonds presented for payment in New York, New York, Chicago, Illinois, and Los Angeles, California, respectively. The Agency may remove any Paying Agent and any successor thereto, and appoint a successor thereto, but any such successor shall be a bank or trust company doing business and having an office in the Borough of Manhattan, City of New York, State of New York, in the City of Chicago, County of Cook, State of Illinois or the City of Los Angeles, County of Los Angeles, State of California, as the case may be. Any Paying Agent may resign upon giving written notice to the Agency or Fiscal Agent. Any such Paying Agent designated by the Agency shall continue to be the Paying Agent of the Agency for the purpose of paying the principal of and interest on the Bonds in New York, New York, in Chicago, Illinois or in Los Angeles, California, as the case may be, until the designation of a successor as such Paying Agent in such city.

SECTION 6.03. *Liability of Agents.* The recitals of facts, covenants and agreements herein and in the Bonds (and any Additional Bonds) contained shall be taken as statements, covenants and agreements of the Agency, and neither the Fiscal Agent nor any Paying Agent assumes any responsibility for the correctness of the same, or make any representations as to validity or sufficiency of this Resolution or of such Bonds or coupons, nor shall incur any responsibility in respect thereof, other than in connection with the duties or obligations herein or in such Bonds assigned to or imposed upon it. Neither the Fiscal Agent nor any Paying Agent shall be liable in connection with the performance of its duties hereunder, except for its own negligence or willful default.

SECTION 6.04. *Notice to Agents.* The Fiscal Agent and any Paying Agent shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Fiscal Agent and any Paying Agent may consult with counsel, who may be of counsel to the Agency, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith in accordance therewith.

Neither the Fiscal Agent nor any Paying Agent shall be bound to recognize any person as the Holder of a Bond (or any Additional Bond) unless and until such Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its duties under this Resolution the Fiscal Agent or any Paying Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of bad faith on the part of the Fiscal Agent or the Paying Agent, be deemed to be conclusively proved and established by a certificate of the Agency, and such certificate shall be full warrant to the Fiscal Agent or any Paying Agent for any action taken or suffered under the provisions of this Resolution or any Supplemental Resolution upon the faith thereof, but in its discretion the Fiscal Agent or any Paying Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

SECTION 6.05. *Deposit and Investment of Moneys in Funds.* All moneys held by the Fiscal Agent or the Treasurer of the Agency in any of the funds or accounts established pursuant to this Resolution shall be deposited or invested as permitted by law, so as to obtain the highest yield which the Fiscal Agent or the Agency, each in its sole discretion, deems practicable, having due regard for the safety of such investments. The moneys in the Redevelopment Fund and the Trust Account shall be invested by the Agency, and the moneys in the Interest Account, the Principal Account, the Reserve Account and the Prior Redemption Account shall be invested by the Fiscal Agent (which investments shall be made as requested by the Agency upon written instructions given to the Fiscal Agent), in Federal Securities or certificates of deposit of banks or savings and loan associations, or deposited in demand or time deposits (which may be represented by certificates of deposit) in any bank, trust company or savings and loan association authorized to accept deposits of public funds (including the Fiscal Agent), secured

at all times by obligations which are eligible by law to secure deposits of public moneys of a market value at least equal to the amount required by law. Moneys in the Reserve Account may be so invested in such obligations or deposits which by their terms mature not later than five (5) years from their date of purchase or not later than the maturity of the Bonds (and any Additional Bonds), whichever is earlier. Moneys in the Interest Account, the Principal Account and the Prior Redemption Account may be so invested in such obligations or deposits which by their terms mature prior to the date on which such moneys are required to be paid out hereunder. Moneys in the Redevelopment Fund and Trust Account may be so invested in such obligations or deposits which by their terms mature prior to the date on which the Agency estimates that such moneys will be required to be paid out hereunder. All interest or income received on any moneys so invested or deposited shall be deposited in the respective fund or account from which such investment was made, except that interest or income received on moneys in the Redevelopment Fund shall be transferred to and deposited in the Trust Account established by Section 3.06.

SECTION 6.06. *No Arbitrage.* No use of the proceeds of the Bonds will be made which, if such use had been reasonably expected on the date of issue of the Bonds, would have caused the Bonds to be "arbitrage bonds" subject to federal income taxation by reason of section 103(c) of the Internal Revenue Code of 1954. To that end, so long as any of the Bonds are outstanding, the Agency and the Fiscal Agent, with respect to the proceeds of the Bonds, will comply with all requirements of said section 103(c) and all regulations of the United States Department of the Treasury issued thereunder, to the extent that such requirements are, at the time, applicable and in effect.

ARTICLE VII

MODIFICATION OR AMENDMENT OF THE RESOLUTION

SECTION 7.01. *Amendments Permitted.* This Resolution and the rights and obligations of the Agency and of the Holders of the Bonds (and any Additional Bonds) and the coupons may be modified or amended at any time by a Supplemental Resolution and pursuant to the affirmative vote at a meeting of Bondholders, or with the written consent without a meeting, of the Holders of sixty per cent (60%) in aggregate principal amount of such Bonds then outstanding, exclusive of Bonds disqualified as provided in Section 7.04. No such modification or amendment shall (1) extend the maturity of any such Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the Agency to pay the principal thereof, or interest thereon, or any premium payable on the redemption thereof, at the time and place and at the rate and in the currency provided therein, without the express consent of the Holder of such Bond, or (2) permit the creation by the Agency of any mortgage, pledge or lien upon the Tax Revenues, superior to or on a parity with the pledge and lien herein created for the benefit of the Bonds (or any Additional Bonds), or reduce the percentage of such Bonds required for the affirmative vote or written consent to an amendment or modification, or (3) modify any of the rights or obligations of the Fiscal Agent without its written assent thereto.

This Resolution and the rights and obligations of the Agency and of the Holders of such Bonds and the coupons may also be modified or amended at any time by a Supplemental Resolution, without the consent of any Bondholders, but only to the extent permitted by law and only for any one or more of the following purposes—

(a) to add to the covenants and agreements of the Agency in this Resolution contained, other covenants and agreements thereafter to be observed, or to surrender any right or power herein reserved to or conferred upon the Agency;

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in this Resolution, or in regard to questions arising under this Resolution, as the Agency may deem necessary or desirable and not inconsistent with this Resolution, and which shall not adversely affect the interests of the Holders of the Bonds; and

(c) to provide for the issuance of any Additional Bonds, and to provide the terms and conditions under which such Additional Bonds may be issued, subject to and in accordance with the provisions of Article III.

SECTION 7.02. *Bondholders' Meeting.* The Agency may at any time call a meeting of the Bondholders. In such event the Fiscal Agent is authorized to fix the time and place of said meeting and to provide for the giving of notice thereof and to fix and adopt rules and regulations for the conduct of said meeting.

SECTION 7.03. *Procedure for Amendment with Written Consent of Bondholders.* The Agency may at any time adopt a Supplemental Resolution amending the provisions of the Bonds (and any Additional Bonds) or of this Resolution or any Supplemental Resolution, to the extent that such amendment is permitted by Section 7.01, to take effect when and as provided in this Section. A copy of such Supplemental Resolution, together with a request to Bondholders for their consent thereto, shall be mailed by the Agency to each registered owner of such Bonds outstanding and to each Holder of any such Bonds payable to bearer who shall have filed with the Fiscal Agent an address for notices, but failure to mail copies of such Supplemental Resolution and request shall not affect the validity of the Supplemental Resolution when assented to as in this Section provided. Notice of the fact of the adoption of such Supplemental Resolution (stating that a copy thereof is available for inspection at the office of the Agency) shall be published at least once a week for two successive weeks in a financial newspaper or journal printed in the English language and customarily published on each business day in San Francisco, California, or in New York, New York, the first publication to be made not more than fifteen (15) days after the date of adoption of such Supplemental Resolution.

Such Supplemental Resolution shall not become effective unless there shall be filed with the Fiscal Agent the written consents of the Holders of sixty per cent (60%) in aggregate principal amount of the Bonds (and any Additional Bonds) then outstanding (exclusive of Bonds disqualified as provided in Section 7.04) and a notice shall have been published as hereinafter in this Section provided. Each such consent shall be effective only if accompanied by proof of ownership of the such Bonds for which consent is given, which proof shall be such as is permitted by Section 9.04. Any such consent shall be binding upon the Holder of the Bonds giving such consent and on any subsequent Holder (whether or not such subsequent Holder has notice thereof) unless such consent is revoked in writing by the Holder giving such consent or a subsequent Holder by filing such revocation with the Fiscal Agent prior to the date when the notice hereinafter in this Section provided for has been published.

After the Holders of the required percentage of Bonds (and any Additional Bonds) shall have filed their consents to the Supplemental Resolution, the Agency shall mail and publish a notice to the Bondholders in the manner hereinbefore provided in this Section for the mailing of the Supplemental Resolution and publication of the notice of adoption thereof, stating in substance that the Supplemental Resolution has been consented to by the Holders of the required percentage of Bonds and will be effective as provided in this Section (but failure to mail copies of said notice shall not affect the validity of the Supplemental Resolution or consents thereto). Proof of the publication of such notice shall be filed with the Fiscal Agent. A record, consisting of the papers required by this Section to be filed with the Fiscal Agent, shall be proof of the matters therein stated until the contrary is proved. The Supplemental Resolution shall become effective upon the filing with the Fiscal Agent of the proof of the publication of such last-mentioned notice, and the Supplemental Resolution shall be deemed conclusively binding (except as otherwise hereinabove specifically provided in this Article) upon the Agency and the Holders of all Bonds and coupons at the expiration of sixty (60) days after such filing, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding for such purpose commenced within such sixty-day period.

SECTION 7.04. *Disqualified Bonds.* Bonds owned or held by or for the account of the Agency, the State of California or any political subdivision thereof (including any municipal corporation, district, public corporation, board or agency, except any pension or retirement fund) shall not be deemed outstanding for the purpose of any vote, consent or other action or any calculation of outstanding Bonds (and any Additional Bonds) provided for in this Article VII, and shall not be entitled to vote upon, consent to, or take any other action provided for in this Article VII.

SECTION 7.05. *Effect of Supplemental Resolution.* From and after the time any Supplemental Resolution becomes effective pursuant to this Article VII, this Resolution shall be deemed to be modified and amended

in accordance therewith, the respective rights, duties and obligations under this Resolution of the Agency and all Holders of Bonds (and any Additional Bonds) outstanding (or of interest coupons appertaining thereto, whether attached thereto or detached therefrom) shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendments, and all the terms and conditions of any such Supplemental Resolution shall be deemed to be part of the terms and conditions of this Resolution for any and all purposes.

The Agency may adopt appropriate regulations to require each Bondholder, before his consent provided for in this Article VII shall be deemed effective, to reveal if the Bonds as to which such consent is given are disqualified as provided in Section 7.04.

SECTION 7.06. *Endorsement or Replacement of Bonds Issued After Amendments.* The Agency may determine that Bonds (and any Additional Bonds) issued and delivered after the effective date of any action taken as provided in this Article VII shall bear a notation, by endorsement or otherwise, in form approved by the Agency, as to such action. In that case, upon demand of the Holder of any Bond outstanding at such effective date and presentation of his Bond for the purpose at the office of the Treasurer of the Agency or at such other office as the Agency may select and designate for that purpose, a suitable notation shall be made on such Bond. The Agency may determine that new Bonds, so modified as in the opinion of the Agency is necessary to conform to such Bondholders' action, shall be prepared, executed and delivered. In that case, upon demand of the Holder of any Bonds then outstanding, such new Bonds shall be exchanged in the office of the Fiscal Agent in San Francisco, California, without cost to any Bondholder, for Bonds then outstanding, upon surrender of such Bonds with all unmatured coupons appertaining thereto.

SECTION 7.07. *Amendatory Endorsement of Bonds.* The provisions of this Article VII shall not prevent any Bondholder from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

SECTION 8.01. *Events of Default and Acceleration of Maturities.* If one or more of the following events ("events of default") shall happen, that is to say—

(1) if default shall be made in the due and punctual payment of the principal of any Bond (or any Additional Bond) when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(2) if default shall be made in the due and punctual payment of any installment of interest on any Bond (or any Additional Bond) when and as such interest installment shall become due and payable, and such default shall have continued for a period of thirty (30) days;

(3) if default shall be made by the Agency in the observance of any of the covenants, agreements or conditions on its part in this Resolution or in the Bonds contained, and such default shall have continued for a period of thirty (30) days; or

(4) if the Agency shall file a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the Agency, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Agency or of the whole or any substantial part of its property;

then, and in each and every such case during the continuance of such event of default, the Fiscal Agent, upon notice in writing to the Agency, or the Holders of not less than a majority in aggregate principal amount of the Bonds (and any Additional Bonds) at the time outstanding, upon notice in writing to the Fiscal Agent and to the Agency, shall be entitled to declare the principal of all of such Bonds then outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Resolution or in such Bonds contained to the contrary notwithstanding.

This provision, however, is subject to the condition that if, at any time after the principal of such Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Agency shall deposit with the Fiscal Agent a sum sufficient to pay all principal on such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all such Bonds, with interest at the rate of eight per cent (8%) per annum on such overdue installments of principal, and the reasonable expenses of the Fiscal Agent, and any and all other defaults known to the Fiscal Agent (other than in the payment of principal of and interest on such Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Fiscal Agent or provision deemed by the Fiscal Agent to be adequate shall have been made therefor, then, and in every such case, the Holders of at least sixty per cent (60%) in aggregate principal amount of the Bonds then outstanding, by written notice to the Agency and to the Fiscal Agent, may, on behalf of the Holders of all of the Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

SECTION 8.02. *Application of Funds upon Acceleration.* All of the Tax Revenues and all sums in the funds and accounts provided for in Sections 4.02 and 4.03 upon the date of the declaration of acceleration as provided in Section 8.01, and all sums thereafter received by the Fiscal Agent hereunder shall be applied by the Fiscal Agent in the order following upon presentation of the several Bonds, Additional Bonds, and coupons, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid—

First, to the payment of the costs and expenses of the Fiscal Agent and of the Bondholders in declaring such event of default, including reasonable compensation to its or their agents, attorneys and counsel;

Second, in case the principal of such Bonds shall not have become due and shall not then be due and payable, to the payment of the interest in default in the order of the maturity of the installments of such interest, with interest on the overdue installments at the rate of eight per cent (8%) per annum (to the extent that such interest on overdue installments shall have been collected), such payments to be made ratably to the persons entitled thereto without discrimination or preference;

Third, in case the principal of such Bonds shall have become and shall be then due and payable, to the payment of the whole amount then owing and unpaid upon such Bonds for principal and interest, with interest on the overdue principal and installments of interest at the rate of eight per cent (8%) per annum (to the extent that such interest on overdue installments of interest shall have been collected), and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such principal and interest without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

SECTION 8.03. *Other Remedies of Bondholders.* Any Bondholder shall have the right, for the equal benefit and protection of all Bondholders similarly situated—

(1) by mandamus, suit, action or proceeding, to compel the Agency and its members, officers, agents or employees to perform each and every term, provision and covenant contained in this Resolution and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the Agency and the fulfillment of all duties imposed upon it by the Law;

(2) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the Bondholders' rights; or

(3) upon the happening of any event of default (as defined in Section 8.01), by suit, action or proceeding in any court of competent jurisdicition, to require the Agency and its members and employees to account as if it and they were the trustees of an express trust.

SECTION 8.04. *Non-waiver.* Nothing in this Article VIII or in any other provision of this Resolution, or in the Bonds or in the coupons, shall affect or impair the obligation of the Agency, which is absolute and unconditional, to pay the principal of and interest on the Bonds (and any Additional Bonds) to the respective Holders of such Bonds and coupons at the respective dates of maturity, as herein provided, or affect or impair the right of action, which is also absolute and unconditional, of such Holders to institute suit to enforce such payment by virtue of the contract embodied in such Bonds and coupons.

A waiver of any default by any Bondholder shall not affect any subsequent default or impair any rights or remedies on the subsequent default. No delay or omission of any Holder of any of such Bonds or coupons to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Bondholders by the Law or by this Article VIII may be enforced and exercised from time to time and as often as shall be deemed expedient by the Holders of such Bonds.

If a suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Bondholders, the Agency and the Bondholders shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

SECTION 8.05. *Actions by Fiscal Agent as Attorney-in-Fact.* Any suit, action or proceeding which any Holder of Bonds (or Additional Bonds) shall have the right to bring to enforce any right or remedy hereunder may be brought by the Fiscal Agent for the equal benefit and protection of all Holders of such Bonds similarly situated and the Fiscal Agent is hereby appointed (and the successive respective Holders and registered owners of such Bonds and interest coupons issued hereunder, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Holders and registered owners of such Bonds and interest coupons for the purpose of bringing any such suit, action, or proceeding and to do and perform any and all acts and things for and in behalf of the respective Holders and registered owners of such Bonds and coupons as a class or classes, as may be necessary or advisable in the opinion of the Fiscal Agent as such attorney-in-fact.

SECTION 8.06. *Remedies Not Exclusive.* No remedy herein conferred upon or reserved to the Holders of the Bonds (and any Additional Bonds) is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

ARTICLE IX

MISCELLANEOUS

SECTION 9.01. *Benefits of Resolution Limited to Parties.* Nothing in this Resolution, expressed or implied, is intended to give to any person other than the Agency, the Fiscal Agent, the Paying Agents, and the Holders of the Bonds, any Additional Bonds, and coupons, any right, remedy or claim under or by reason of this Resolution. Any covenants, stipulations, promises or agreements in this Resolution contained by and on behalf of the Agency shall be for the sole and exclusive benefit of the Holders of such Bonds and coupons and the Fiscal Agent and the Paying Agents.

SECTION 9.02. *Successor Is Deemed Included in All References to Predecessor.* Whenever in this Resolution or any Supplemental Resolution either the Agency or the Fiscal Agent or any Paying Agent is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Resolution contained by or on behalf of the Agency or the Fiscal Agent or any Paying Agent shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

SECTION 9.03. *Discharge of Resolution.* If the Agency shall pay and discharge the entire indebtedness on all the Bonds (and any Additional Bonds) in any one or more of the following ways—

(1) by well and truly paying or causing to be paid the principal of and interest on such Bonds outstanding, as and when the same become due and payable;

(2) by depositing with the Fiscal Agent, in trust, at or before maturity, money which is fully sufficient to pay all such Bonds outstanding, including all principal, interest and redemption premiums; or

(3) by depositing with the Fiscal Agent, in trust, Federal Securities (which deposit may be in book entry form on the books of the United States Department of Treasury) or general obligation bonds of the State of California in such amount as the Fiscal Agent shall determine which, together with other moneys deposited in trust, will, together with the interest to accrue thereon, be sufficient to pay and discharge the indebtedness on all such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates—

and if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in this Resolution provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice, then, at the election of the Agency, and notwithstanding that any such Bonds or interest coupons shall not have been surrendered for payment, the pledge of the Tax Revenues and other funds provided for in this Resolution and all other obligations of the Agency under this Resolution with respect to all such Bonds outstanding shall cease and terminate, except only the obligation of the Agency to pay or cause to be paid to the Holders of the Bonds and any Additional Bonds and interest coupons not so surrendered and paid all sums due thereon. Notice of such election shall be filed with the Fiscal Agent.

Any funds held by the Fiscal Agent, which are not required for the purpose above mentioned, shall be paid over to the Agency.

SECTION 9.04. *Execution of Documents and Proof of Ownership by Bondholders.* Any request, declaration or other instrument which this Resolution may require or permit to be executed by Bondholders may be in one or more instruments of similar tenor, and shall be executed by Bondholders in person or by their attorney appointed in writing.

Except as otherwise herein expressly provided, the fact and date of the execution by any Bondholder or his attorney of such request, declaration or other instrument, or of such writing appointing such attorney, may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which he purports to act, that the person signing such request, declaration or other instrument or writing acknowledged to him the excecution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer.

Except as otherwise herein expressly provided, the amount of Bonds transferable by delivery held by any person executing such request, declaration or other instrument or writing as a Bondholder, and the numbers thereof, and the date of his holding such Bonds, may be proved by a certificate, which need not be acknowldged or verified, satisfactory to the Fiscal Agent, executed by a trust company, bank or other depositary wherever situ-

ated, showing that at the date therein mentioned such person had on deposit with such depositary or exhibited to it the Bonds described in such certificate. Continued ownership after the date of deposit stated in the certificate may be proved by the presentation of such certificate if the certificate contains a statement by the depositary that the Bonds therein referred to will not be surrendered without the surrender of the certificate to the depositary, except with the consent of the Fiscal Agent. The Fiscal Agent may nevertheless in its discretion require further or other proof in cases where it deems the same desirable. The ownership of registered Bonds and the amount, maturity, number and date of holding the same shall be proved by the registry books.

Any request, declaration or other instrument or writing of the Holder of any Bond shall bind all future Holders of such Bond in respect of anything done or suffered to be done by the Agency or the Fiscal Agent in good faith and in accordance therewith.

SECTION 9.05. *Waiver of Personal Liability.* No member, officer, agent or employee of the Agency shall be individually or personally liable for the payment of the principal of or interest on the Bonds or any Additional Bonds; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

SECTION 9.06. *Publication for Successive Weeks.* Any publication to be made under the provisions of this Resolution in successive weeks may be made in each instance upon any business day of the week and need not be made on the same day of any succeeding week or in the same newspaper for any or all of the successive publications, but may be made in different newspapers.

SECTION 9.07. *Destruction of Cancelled Bonds.* Whenever in this Resolution provision is made for the surrender to the Agency of any Bonds, Additional Bonds or coupons which have been paid or cancelled pursuant to the provisions of this Resolution, a certificate of destruction duly executed by the Fiscal Agent shall be deemed to be the equivalent of the surrender of such cancelled Bonds and coupons and the Agency shall be entitled to rely upon any statement of fact contained in any such certificate with respect to the destruction of any such Bonds or coupons therein referred to.

SECTION 9.08. *Notices and Demands on Agency.* Any notice or demand which by any provision of this Resolution is required or permitted to be given or served by the Fiscal Agent to or on the Agency may be given or served by being deposited postage prepaid in a post office letter box addressed (until another address is filed by the Agency with the Fiscal Agent) as follows: Redevelopment Agency of the City of Merced, City Hall, 1730 M Street, Merced, CA 95340, Attention: Executive Director. The date of said notice or demand shall be deemed to be the date of the postmark on said notice or demand.

SECTION 9.09. *Partial Invalidity.* If any Section, paragraph, sentence, clause or phrase of this Resolution shall for any reason be held illegal or unenforceable, such holding shall not affect the validity of the remaining portions of this Resolution. The Agency hereby declares that it would have adopted this Resolution and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Resolution may be held illegal, invalid or unenforceable. If, by reason of the judgment of any court, the Fiscal Agent is rendered unable to perform its duties hereunder, all such duties and all of the rights and powers of the Fiscal Agent hereunder shall be assumed by and vest in the Treasurer of the Agency in trust for the benefit of the Bondholders. The Agency covenants for the direct benefit of the Bondholders that its Treasurer in such case shall

be vested with all of the rights and powers of the Fiscal Agent hereunder, and shall assume all of the responsibilities and perform all of the duties of the Fiscal Agent hereunder, in trust for the benefit of the holders of the Bonds.

PASSED AND ADOPTED on May 1, 1978, by the following vote:

Ayes: Members Hart, Goings, Robinson, Gabriault, Quigley.

Noes: Members Henderson.

Absent: Members Pipes.

WILLIAM P. QUIGLEY

Chairman of the
Redevelopment Agency of the City of Merced

(Seal)

ALLAN R. SCHELL

Secretary of the
Redevelopment Agency of the City of Merced

SECRETARY'S CERTIFICATE

I, Allen R. Schell, Secretary of the Redevelopment Agency of the City of Merced, hereby certify as follows:

The foregoing is a full, true and correct copy of a resolution duly adopted at a regular meeting of said Agency duly and regularly held at the regular meeting place thereof on May 1, 1978, of which meeting all of the members of said Agency had due notice and at which a majority thereof were present;

At said meeting said resolution was adopted by the following vote:

Ayes: Members Hart, Goings, Robinson, Gabriault, Quigley.

Noes: Members Henderson.

Absent: Members Pipes.

I have carefully compared the same with the original minutes of said meeting on file and of record in my office;

The foregoing is a full, true and correct copy of the original resolution adopted at said meeting and entered in said minutes;

Said resolution has not been amended, modified or rescinded since the date of its adoption, and is now in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of said Agency.

Dated: May 2, 1978

ALLAN R. SCHELL

Secretary of the
Redevelopment Agency of the City of Merced

(Seal)